CHINA KNOWLEDGE SERIES

CHINA'S SOCIALIST ECONOMY

XUE MUQIAO

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AUTHOR'S PREFACE

I thought of writing a book like this more than twenty years ago.

In 1955, the Propaganda Department of the Chinese Communist Party Central Committee assigned me the job of co-authoring with Yu Guangyuan and Sun Yefang a textbook on political economy. As a kind of spadework, I wrote in collaboration with Su Xing, Lin Zili and others *The Socialist Transformation of the National Economy in China,* a book published on the tenth anniversary of the People's Republic in 1959.* After that I found little time for research on key questions of socialist economic construction, and what I did outside my regular duties before 1966, the first year of the Cultural Revolution, found expression in about two dozen articles and a dozen speeches.

In 1978 the People's Publishing House offered to publish a collection of articles I wrote during the period from the founding of New China to the eve of the Cultural Revolution. As requested, I selected over a dozen major articles and compiled them in a book, published in April 1979, called *Theoretical Questions of the Socialist Economy.* It is by no means a comprehensive work and, judged by today's standards, it is both ideologically weak and faulty in some respects. Nevertheless, it does touch on important aspects of the socialist economy and, furthermore, reflects the level of my understanding at the time of writing. This may be regarded as my first venture into the subject.

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* An English translation was published by the Foreign Languages Press, Beijing, in 1960. — *Trans.*

During the Cultural Revolution, I spent all available time reading through the *Selected Works of Marx and Engels,* the *Selected Works of Lenin* and Marx's *Capital* along with a further study of the *Selected Works of Mao Zedong.* In 1968, I tried my hand at a book entitled *Questions of the Socialist Economy* and rewrote it six times over the next eight years. The original plan was to produce a textbook called *Political Economy Concerning Socialism.* While revising the text, however, I found the plan increasingly difficult to carry out. First of all, I was not strong enough in a dialectical approach to questions of the socialist economy. In addition, quite a few "forbidden areas" in theoretical study had been carved out during the Cultural Revolution. Consequently, the chapters in the textbook showed little improvement over the articles I wrote prior to the Cultural Revolution. I later realized that only after the downfall of the Gang of Four in October 1976 and especially after the Third Plenary Session of the Party's Eleventh Central Committee in December 1978 could I attempt an effective rewrite. The keynote of the Third Plenary Session was a call for people to think for themselves on the principle, "practice is the sole criterion of truth."

The revised version showed a departure from my earlier plans to write a textbook. Instead of trying to develop a comprehensive theoretical system, I did my best to apply the basic tenets of Marxism-Leninism to a study of the historical experience of China's socialist revolution and construction as well as major economic problems awaiting solution. In the process of research, I deepened my understanding of the laws of motion of the socialist economy. I gave up on the textbook because I came to realize the difficulties in building a comprehensive theoretical system, given the brief history of China's socialist construction, the immaturity of her socialist economy and the insufficiency of her practical experience. On the other hand, having worked in the economic field for more than three decades, I wanted to devote my later years to a study of problems which, in my opinion, had to be examined

and solved immediately. I offer my views to theoreticians and administrators alike and hope they may be of use in a future treatise on the political economy concerning socialism.

China's socialist revolution and construction have entered a new historical era. The Third Plenary Session of the Party's Eleventh Central Committee set forth the task of shifting the focus of the Party's work to socialist modernization and building a powerful socialist state by the end of this century. Reading about this policy decision, I felt I should complete my book as soon as possible. New developments pose important theoretical and practical questions. The Party Central Committee has called on theoreticians to provide guidance for practical workers. Thus we who work in the theoretical field are asked to contribute to the country's four modernizations* in our own way: by conducting a serious study of China's experience in socialist revolution and construction in the past thirty years and promoting the science of political economy in the new circumstances.

I would like to say a few words about my principles for studying the socialist economy:

1. *Integration of theory with practice.* During the rectification campaign in Yenan in 1941, Mao Zedong made an important report, "Reform Our Study", in which he said:

> Although we are studying Marxism, the way many of our people study it runs directly counter to Marxism. That is to say, they violate the fundamental principle earnestly enjoined on us by Marx, Engels, Lenin and Stalin, the unity of theory and practice.[1]

The unity of theory and practice, that is, seeking truth from facts and aiming at one's target, should be our scientific ap-

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* The modernization of agriculture, industry, national defence and science and technology. — *Trans.*

[1] Mao Zedong, "Reform Our Study", *Selected Works*, Foreign Languages Press, Beijing, 1977, Vol. III, p. 20.

proach. To examine the laws of motion of the capitalist economy, Marx collected a wealth of data — historical, current and theoretical. Then through a scientific analysis and comprehensive study of these data, he brought to light the essence of the capitalist relations of production and the laws governing their motion, concluding that the extinction of capitalism and the triumph of socialism are both inevitable. While studying Marx's *Capital,* we have to grasp not only his theory on the laws of motion of the capitalist economy but also his methodology. Empty, purely theoretical research divorced from reality and a simple repetition of the conclusions in the books are to be avoided.

Socialism is a new system. In studying the laws of motion of the socialist economy, we must always base our work on actual conditions. In a capitalist country, the mission of the working class is to destroy the old world. In a socialist country, its task is to build a new world. Under capitalism, it is up to the capitalists to organize and manage production. In China today, socialist modernization and the management of the socialist economy are a vital concern of the working people. It is our job to study the new developments and problems on the basis of Marxism-Leninism and Mao Zedong Thought, discover and apply the laws of the socialist economy, and solve the theoretical and practical questions of socialist economic construction.

Marx and Lenin showed us the laws governing the transition from capitalism to communism through socialism. Their scientific predictions remain the guide to our study of questions of the socialist economy. However, the classics they authored are insufficient for a study of the socialist economy because socialism never actually existed in their lifetime. History proves that the Marxist theory of socialism and communism can only develop through practice. We must never take what is said by Marx, Engels and Lenin in their works as dogma or as a panacea. Lenin said:

> We do not regard Marx's theory as something completed and inviolable; on the contrary, we are convinced that it has only laid the foundation stone of the science which socialists *must* develop in all directions if they wish to keep pace with life.[1]

A theoretical study of China's socialist economy must proceed from present reality. China used to be a semi-colonial, semi-feudal country. It had the largest population in the world but a very low level of productive forces and a predominantly small-peasant economy. This was the basis on which socialist revolution and construction were undertaken after the proletarian seizure of state power. China is already a socialist country but one with a backward economy and culture. We have had our successes and our failures. A look at the history of the past thirty years shows that it is by no means easy to build socialism and achieve modernization in a country like ours. The path to China's goals can be found only through protracted studies on the basis of her actual conditions and the principles of Marxism-Leninism and Mao Zedong Thought.

2. *Concrete analysis of the contradictions in a socialist society.* Mao Zedong pointed out that contradiction is present in all things and permeates the course of development of each thing from beginning to end. Recognition of the internal contradictions of a thing means a grasp of its essence. Contradiction is the force that drives society forward. Without contradiction there can be no social progress in socialist society. He said:

> In socialist society the basic contradictions are still those between the relations of production and the productive forces and between the superstructure and the economic base. . . . socialist relations of production have been established and are in correspondence with the growth of

[1] Lenin, "Our Programme", *Collected Works*, Foreign Languages Publishing House, Moscow, 1960, Vol. 4, pp. 211-12.

the productive forces, but these relations are still far from perfect, and this imperfection stands in contradiction to the growth of the productive forces. Apart from correspondence as well as contradiction between the relations of production and the growth of the productive forces, there is correspondence as well as contradiction between the superstructure and the economic base.[1]

This was Mao Zedong's general view on contradictions in a socialist society.

Our understanding of Mao Zedong's views was often inaccurate and incomplete, leading to confusion on the question of contradictions in a socialist society. Correspondence and contradiction, it seemed, were mutually exclusive. Thus correspondence between the socialist relations of production and the growth of productive forces was taken to mean an absence of contradictions between them — an interpretation contrary to Mao Zedong's thesis quoted above and to what he said in his article "On Contradiction", namely, that contradiction is present in all things and permeates the process of development of each thing from beginning to end. Moreover, this interpretation was practically the same as the argument that the socialist relations of production fully correspond with the productive forces. It was an obvious misunderstanding. Contradiction exists likewise between the socialist relations of production and the growth of productive forces, except that the different aspects of the contradiction are still in a state of mutual correspondence before any qualitative change occurs.

Socialism is the lower phase of communism or immature communism. Viewed against the perspective of communism, socialism is an imperfect socio-economic formation. And since we are in the elementary stage of socialism, our socialism is immature or, in the words of Mao Zedong, "far from perfect". In the existing socialist relations of production, socialist

[1] Mao Zedong, "On the Correct Handling of Contradictions Among the People", *Selected Works*, FLP, Beijing, 1977, Vol. V, pp. 393-94.

ownership by the whole people is imperfect in a number of respects and needs improvement and development. In the economic sector under socialist collective ownership, commune members are still allowed to cultivate private plots and engage in household side-line occupations. This is another indication of the immaturity of the socialist relations of production. At the present stage of growth of productive forces in agriculture, collective ownership and the growth of productive forces are still in a state of mutual correspondence. While the peasants are encouraged to take an active part in collective labour, they may devote their spare time to side-line production as a means of meeting their needs which cannot be fulfilled by the present collective economy. Although this contradicts collective ownership, the two contradictory aspects are still in a state of mutual correspondence. Of course, the remnants of individual economy cannot linger on forever, but will die out as soon as the collective economy grows strong enough to take their place. Similarly, although collective ownership plays a vigorous role in promoting the growth of agricultural productive forces, it will become an obstacle to their further development with the full mechanization and modernization of farm production, which will create the need for a gradual transition to ownership by the whole people.

Back in 1937, Mao Zedong analysed the two states of motion of contradiction in his article "On Contradiction". He said:

> There are two states of motion in all things, that of relative rest and that of conspicuous change. Both are caused by the struggle between the two contradictory elements contained in a thing.[1]

The same is true of the motion of the socialist relations of production and the productive forces as opposites to each other. When they are in a state of correspondence and rela-

[1] Mao Zedong, "On Contradiction", *Selected Works*, FLP, Beijing, 1975, Vol. I, p. 342.

tive rest, we should consolidate such relations of production. When they are in a state of non-correspondence and conspicuous change, we have to reform the relations of production, introducing first a partial reform, or a partial qualitative change, and then a complete reform, or a complete qualitative change. This is how we effect the transition from two systems of socialist public ownership to a unitary ownership by the whole people and then from the lower to the higher phase of communism. Such a transformation requires a long process of many stages. Any denial of contradiction or over-simplification of its development leads to grave mistakes in both theory and practice.

Since the contradiction between the relations of production and the productive forces and that between the superstructure and the economic base are basic to a socialist society, we should give this question serious consideration in a study of the political economy concerning socialism. Political economy is the science of relations of production which, nevertheless, cannot be studied separately from productive forces and the superstructure. Instead, it explores the growth of relations of production in light of the motion of opposites — the relations of production and the productive forces, the superstructure and the economic base.

3. *The study of the socialist relations of production as a process.* Every socio-economic formation goes through a process of development, which is the very subject matter of political economy. Socialism is not an independent socio-economic formation but the lower phase of communism and, as such, needs more study as a process. Some comrades attempt to disregard capitalism and communism in their study of the historical stage of socialism, seeing it as something rigid and immutable. This prevents any correct understanding of socialism. As for the statement that socialism is an independent social formation, it seems to have nothing in common with Marxism.

Like the natural world, human society develops through a process of growth whereby the new supersedes the old. A new society invariably has certain remnants of the old. A dying society always exhibits some seeds of a rising one. Marx points out that a socialist society emerges from the womb of a capitalist society, and necessarily bears its birthmarks. China's was not a pure capitalist society but a semi-colonial and semi-feudal one; its socialist society therefore shows the traces of capitalism as well as those of feudalism and the economy of the small commodity producer. The evolution of socialist relations of production coincides with the gradual disappearance of these remnants of the old society. On the other hand, seeds of socialism were engendered in China's liberated areas back in the days of her new-democratic revolution. While the economic sector under collective ownership retains elements of the economy of the individual producer, it also contains rudiments of a system of ownership by the whole people. In China's distribution system, vestiges of differential rent in the old society are found under collective ownership. In the economic sector under ownership by the whole people, where the general principle of "to each according to his work" is followed, collective welfare undertakings are developed with the growth of productive forces. Collective welfare contains rudiments of distribution on the communist principle of "to each according to his needs". If we do not take into consideration the objective dialectical law of the new superseding the old but look for a "pure" socialism free from both vestiges of the old and rudiments of the new, we are likely to fall victim to a metaphysical point of view.

Socialism is the necessary stage of transition between capitalism and communism. The period of socialism may last several hundred years and covers the transition from capitalism to socialism and from socialism to communism. This whole period of transition is again divided into smaller stages, including the transition from individual ownership to collective ownership, from collective ownership to ownership by

the whole people and, finally, from socialist ownership by the whole people to communist ownership by the whole people. These transitions are effected through continual quantitative changes and a series of partial qualitative changes. Without quantitative change there can be no qualitative change, and without a series of partial qualitative changes it would be impossible to complete the fundamental qualitative change from capitalism to communism.

By partial qualitative changes in a general process of development we do not mean an absence of relative stability between two qualitative changes. When China's socialist system was first established, Mao Zedong pointed out:

> . . . the new social system has only just been established and requires time for its consolidation. It must not be assumed that the new system can be completely consolidated the moment it is established; that is impossible. It has to be consolidated step by step.[1]

He also said:

> Our basic task has changed from unfettering the productive forces to protecting and expanding them in the context of the new relations of production.[2]

The Gang of Four argued that at no time can productive forces grow without a change in the relations of production, and advocated an unconditional, continual change in the social relations of production. This was an anti-Marxist view.

While stressing the need to consolidate the socialist relations of production, including collective ownership in agriculture, we do not mean these relations are perfect at the present stage. On the contrary, they are imperfect in many respects. The lower the level of productive forces, the less perfect are

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[1] Mao Zedong, "Speech at the Chinese Communist Party's National Conference on Propaganda Work", *Selected Works*, FLP, Beijing, 1977, Vol. V, pp. 422-23.

[2] Mao Zedong, "On the Correct Handling of Contradictions Among the People", *Selected Works*, FLP, Beijing, 1977, Vol. V, p. 397.

these relations. Some of the imperfections have to be preserved for the time being because they are in keeping with the present level of productive forces; others are not quite so and, with the growth of productive forces, will be ever more out of keeping with the latter and must be changed step by step. For a fairly long time, all we have to change are those parts of the socialist relations of production which hamper the growth of productive forces or the four modernizations. The changes will perfect and consolidate the socialist relations of production. But there will be no change in the socialist relations of production as a whole until a gradual transition to the higher phase of communism is made possible by a spectacular rise in both productive forces and people's communist consciousness.

The "Resolution on Some Questions Concerning the People's Communes" adopted at the Sixth Plenary Session of the Eighth Central Committee of the Chinese Communist Party in December 1958 states:

> We are advocates of the Marxist-Leninist theory of uninterrupted revolution; we hold that no "Great Wall" exists or can be allowed to exist between the democratic revolution and the socialist revolution and between socialism and communism. We are at the same time advocates of the Marxist-Leninist theory of the development of revolution by stages; we hold that different stages of development reflect qualitative changes and that these stages, different in quality, should not be confused.

This is the correct approach for our study of the socialist economy. We have to recognize both the transitional and the protracted nature of socialist society. A leap in quality has to be preceded by an accumulation of innumerable quantitative changes, and a complete change in quality by a number of partial qualitative changes before the realization of communism.

This book can only be regarded as a draft. I invite theoreticians, business administrators and other readers to give their comments and criticisms for a further revision of the text.

Thanks are due to Su Xing, He Jianzhang, Yu Xueben and Wu Kaitai who participated in the discussion and revision of the whole book and to Xu He and Wu Shuqing who took part in the discussion and writing of some chapters of a previous draft.

Chapter I
CHINA'S SOCIALIST REVOLUTION AND SOCIALIST CONSTRUCTION

In carrying out socialist revolution and construction in a poor, backward and populous country, we have achieved many successes and met with some failures. To realize our goal of four modernizations it is important to sum up the historical experience in the 30 years since the founding of the People's Republic and examine the objective laws governing the growth of the socialist economy.

1. PARTICULARITIES OF CHINA'S SOCIALIST REVOLUTION

Marx and Engels assumed that the proletarian socialist revolution would first be successful in the most developed capitalist countries, such as Britain, France, Germany and the United States, perhaps all at once. Had this been the case, the transition from capitalism to socialism would have been much easier. But history takes a tortuous course. Up to now, no proletarian revolution has triumphed in any of these countries. The proletariat in Russia, a less developed capitalist country, seized state power more than 60 years ago. Unlike the opportunist leaders of the Second International who ignored the changes in the objective situation and confined themselves to the specific theoretical conclusions of Marx and Engels, Lenin creatively developed Marxism under new historical circumstances. He pointed out that in the epoch of imperialism, the uneven political and economic development

of the capitalist countries had made it possible for the proletariat to triumph first in a country representing the weakest link in the capitalist world. Since history offered such an opportunity to the proletariat, should it seize power first and then develop the economy and culture of the country, or should it refrain from doing so until after a full economic and cultural development? Lenin chose the first course, which has been proved correct by the victory of the October Revolution and the subsequent successes in socialist revolution and construction in the Soviet Union.

The salvoes of the October Revolution brought Marxism-Leninism to China which, as a semi-colonial, semi-feudal country, saw the victory of her own proletarian revolution 32 years later. The weakness of China's national bourgeoisie made it necessary for the proletariat to exercise leadership, through the Communist Party, in the democratic revolution against imperialism, feudalism and bureaucrat-capitalism and guide it to victory. The Chinese revolution differed from the Russian revolution in that, while the Russian proletariat seized power through armed uprisings in the cities and then extended the revolution to the countryside, the Chinese proletariat, being small and weak, had to rely on the peasants as its chief ally, establish its revolutionary bases in the rural areas, and then encircle and capture the cities from there. This was a new trail blazed by Mao Zedong and other Chinese revolutionaries for the proletarian revolution in a poor and backward country. Protracted armed struggle by the Chinese peasants under proletarian leadership resulted in the complete victory of the democratic revolution and the political predominance of the proletariat in a people's democratic dictatorship which was essentially a proletarian dictatorship.

History posed a new question to us: in our economically backward country of small peasants, would it be possible to establish a socialist economy by carrying out an immediate socialist transformation of ownership of the means of production? After taking over enterprises owned by bureaucrat-

capital and changing them into socialist state enterprises, the proletariat had already established its superiority over the national bourgeoisie in the economic field. Now the question was: who was to assume leadership over the economy of the numerous individual peasants? It was clear that in the struggle between the proletariat and the bourgeoisie, whoever gained leadership over the small peasant economy would emerge victorious.

The Chinese Communist Party won victory in the new-democratic revolution mainly by relying on the peasants during the 22-year armed struggle in the rural areas. It firmly united the peasants politically and worked out a whole series of measures to direct the small peasant economy. Seeing how scattered and hard to manage was the small peasant economy, Lenin believed it was more difficult to deal with the small peasants than with the bourgeoisie. In the first half of 1918, he suggested using state capitalism to combat the spontaneous capitalist tendency of the peasants. During the period of foreign armed intervention and civil war, he was compelled to put war-time communism into effect and tried to do away with the commodity-money relationship. When this proved impracticable, he advanced the New Economic Policy, an attempt to control the small peasant economy through the market by developing state and co-operative commerce. To this end, he called on Communists "to learn how to do business".

The situation in China was different. During the revolutionary wars, we set up supply and marketing co-operatives throughout the rural base areas which purchased the peasants' farm produce and provided them with manufactured goods. In this way we rehabilitated agricultural production, gave much support to the war effort, and rallied the peasants around us while weakening their ties with the bourgeoisie. After the victory of the War of Liberation (1945-49), similar co-operatives were established in the newly liberated areas to link the socialist state economy with the small peasant econ-

omy. From the very outset, we laid a solid foundation for the solution of a problem which Lenin regarded as a hard nut to crack.

Could we start a socialist revolution immediately following victory in the democratic revolution? The answer wasn't clear at the beginning. Half of the country had only just been liberated, and it would take two or three years to complete the agrarian reform, a task of the democratic revolution, in this vast region. When we did complete the agrarian reform, the peasants generally showed enthusiasm in expanding their individual economy while many poor peasants preferred to take the road of socialism. But we had no experience in organizing the peasants on the basis of a socialist collective economy. On the Marxist principle that socialism can only be built on the basis of large-scale socialized production, some people held that mechanization must come before collectivization in China's agriculture. This view did not seem to apply to the conditions in China's rural areas, where the cultivated land averaged three *mu** per capita and about a dozen *mu* per household, which were often divided into several patches. The small peasant economy showed a low labour productivity and was incapable of accumulating large funds. Without managing agriculture on a co-operative basis it was difficult to lay out large tracts of farmland or accumulate sufficient funds for mechanization. In his report "On the Co-operative Transformation of Agriculture" published in 1955, Mao Zedong pointed out that, with conditions as they were in China, co-operation had to precede mechanization in agriculture. After the publication of this report, a movement for agricultural co-operation** swept the country.

Since China's agricultural co-operation was carried out on the basis of manual labour and a substantially self-sufficient

* One *mu* equals one-fifteenth of a hectare. — *Trans.*

** Here "co-operation" means the same thing that "collectivization" means in the Soviet Union. — *Trans.*

economy, it lacked a solid foundation. The relations of production can never surpass the level of productive forces. Co-operation on such a basis precludes the establishment of many big farms. The process of co-operation was basically completed in 1956, followed by the establishment of people's communes in 1958. But up to now, with the exception of a small number of economically advanced communes and production brigades, the communes are still being operated at a very low level of public ownership and the production team remains the basic unit of production and distribution. Over the years many areas have seen premature attempts to raise the level of public ownership in the people's communes whereby the production brigade or even the commune was made the basic unit of production and distribution, while remnants of the individual economy, such as the peasants' private plots and household side-line occupations, were abolished. The result was a dislocation of productive forces and a marked decline in agricultural production and the peasants' standard of living. Experience shows that if we ignore the realities of China's agricultural production and go against the basic law of economic growth, namely, the relations of production must conform to the level of productive forces, we shall be punished for our mistake.

Similarly, the socialist transformation of China's capitalist industry and commerce could only be carried out step by step in view of the country's economic backwardness. In his report to the Second Plenary Session of the Party's Seventh Central Committee in March 1949, Mao Zedong pointed out that the output value of China's modern industry only accounted for some 10 per cent of the total output value of the nation's economy, while private capitalist industry took second place in modern industry* and was still a force to be reckoned with. Because of old China's economic backwardness, it was necessary, for a fairly long time after the victory of the revolution,

* After the industry owned by bureaucrat-capital. — *Trans.*

to make full use of the initiative of private capitalism in the interest of national economic growth. After the founding of New China, while expropriating bureaucrat-capital, we didn't confiscate national capital. Instead, we made use of its positive side which did good to the economy and the people's livelihood, restricted its negative side which did harm to the latter, and accomplished its gradual socialist transformation through state capitalism. This policy towards capitalist industry and commerce conformed to the level of our productive forces.

With the completion of the socialist transformation of agriculture, handicrafts and capitalist industry and commerce, China became a socialist country. But her socialist economy remains immature and imperfect and has a long way to go before it reaches the first phase of communism envisaged by Marx in his *Critique of the Gotha Programme*. Socialist society or the first phase of communism, as Marx defines it, is based on ownership of the means of production by the whole society or, as we put it, on a unitary system of ownership by the whole people. The peasantry accounted for some 90 per cent of China's population at the time of liberation and remains more than 80 per cent at present. The country has more than 800 million peasants, mostly living in the economic sector under collective ownership. While ownership by the whole people occupies a leading position in the nation's economy, collective ownership is predominant in the rural areas. Much of China's industry is still operated by semi-mechanized means or by manual labour. In the service trades, most people are doing manual labour, making necessary the preservation and development of enterprises under collective ownership. After organizing the handicrafts and small businesses into co-operatives, we took premature steps to place them under ownership by the whole people. We now see it as a mistake. Even in cities and towns it is necessary to preserve and develop some enterprises under collective ownership that are responsible for their profits or losses, because they add

diversity and flexibility to production and economic management, contributing significantly to full employment and meeting the great variety of consumer needs.

To reveal the essence of capitalist relations of production, Marx often applies the method of abstraction in his works on political economy. *Capital* deals mainly with the most typical class relationship in capitalist society, the relationship between the bourgeoisie and the proletariat, and says very little about small producers. In his days, while few small producers were left in Britain, vast numbers of them were found in other countries. Today there are still more than two million private farms in the United States, an indication that even in the highly developed capitalist countries the situation after the victory of the socialist revolution will be much more complicated than what is described in the passages on the first phase of communism in the *Critique of the Gotha Programme*. China used to be a country dominated by small producers who conducted partially self-sufficient production by manual labour. To develop China's socialist economy, we must take this background into consideration and skillfully combine principle with flexibility instead of adhering dogmatically to the conclusions of Marx, Engels, Lenin and Stalin; copying their models mechanically would lead to an ossification of China's socialist economy. The measures to be adopted in different regions should vary with their natural and economic conditions, and the level of public ownership may be higher or lower as the circumstances require. A singular standard for all regions will hamper the growth of production.

2. GUIDELINES FOR CHINA'S SOCIALIST CONSTRUCTION

China's First Five-Year Plan for the building of socialism began in 1953. Actually, construction started immediately after the founding of the People's Republic in 1949. Industrial and agricultural production grew rapidly during the three

years of economic rehabilitation (1949-52). Farm output rose by 48.5 per cent, averaging 14.1 per cent a year. Industrial output went up by 145 per cent, averaging 34.8 per cent a year. In industry, the average yearly increase in light industry was 29 per cent and that in heavy industry 48.8 per cent. Of course, the high rates were peculiar to a period of recovery and could not be attained in normal times. As agriculture, light industry and heavy industry each grew at a different rate, the proportions they accounted for in the gross industrial and agricultural value of output changed accordingly. Between 1949 and 1952, the proportion contributed by agriculture dropped from 70 to 58.5 per cent while that of light industry rose from 22 to 27.7 per cent and that of heavy industry grew from 8 to 14.8 per cent. The rapid growth of heavy industry was mainly due to the rehabilitation it underwent following serious dislocation from war. Although its annual output surpassed the peak in history after three years of recovery and expansion, heavy industry still accounted for an insignificant proportion in the gross industrial and agricultural value of output.

Like the Soviet Union, China carried out a policy of giving priority to heavy industry during the First Five-Year Plan period (1953-57). With Soviet aid, she launched 156 major construction projects, mainly in heavy industry, to lay the groundwork for socialist industrialization. But giving priority to heavy industry could not but affect the peasants' standard of living and the growth of agriculture. Where were the enormous funds for heavy industry to come from? In those days, the bulk of money could only come from the peasants. Heavy industry, which initially accounted for only 8 per cent of the gross industrial-agricultural value of output, could not provide much of the money by itself. Light industry did accumulate more funds, but it earned much of its profit through unequal exchange with the peasants. In other words, it purchased raw materials from the peasants at relatively low prices and sold textiles and other manufactured goods to them

at relatively high prices. In fact, the peasants contributed several times more to the state through such unequal exchange than what they paid in agricultural tax. The rapid growth of industry and the urban population created the problem of supplying greater volumes of grain, non-staple foods and cotton to the cities and industrial centres. To cope with the situation, the state had to buy grain and cotton from the peasants on a requisition basis and then subjected both to its monopoly purchase. It also started to buy meat, eggs and other foods from the peasants by assigned quotas. All this limited the supplies available for the peasants' own consumption, and excessive state purchase of grain in some years reduced the peasants' food grain, dampening their enthusiasm in production.

To build big socialist industry in an economically backward, agricultural country, it is indeed necessary to obtain some funds from the peasants, but they cannot be expected to contribute too much. The Soviet government, while giving priority to heavy industry, squeezed the peasants too hard, stunting the growth of agriculture. Soviet heavy industry did make speedy progress at the outset. But as agriculture and light industry could not keep pace with the rising needs of the urban people, the development of heavy industry became increasingly difficult. In his 1956 report, "On the Ten Major Relationships", Mao Zedong summed up China's own experience in light of the lessons provided by the Soviet Union. He pointed out that while emphasis should be placed on heavy industry, special attention should be paid to the growth of agriculture and light industry and under no circumstances should a policy of "draining the pond to get all the fish" be adopted towards the peasants. The speech defined a correct guideline for China's socialist construction. At the time of the founding of New China, peasants accounted for some 90 per cent of the population. Their standard of living was very low and many of them were inadequately fed or clothed. In such a situation we should have applied to the peasants a

policy of recruiting fewer labourers for the construction of public projects, collecting less government grain, and giving the rural economy a chance to build up its strength. Heavy industry should not have been built on such a large scale while more money should have been saved for agricultural development and the improvement of the peasants' livelihood. Had things been done this way, it might have been possible for the overwhelming majority of the peasants to secure adequate food and clothing in three to five years, which would have accelerated the growth of agriculture.

Requisition purchases and state monopoly, plus the rationing of meat, eggs and other non-staple foods almost everywhere in the country, were signs that agricultural production could no longer meet the needs of industrial development, particularly those arising from the expansion of heavy industry and the accompanying growth of the urban population. These developments served as a warning for us to readjust the ratio between agriculture and light and heavy industries along the guidelines set forth in "On the Ten Major Relationships". The readjustment was not made, however. In 1956, the rate of agricultural growth began declining, partially due to the excessive speed of the drive to set up agricultural co-ops. The rate of industrial growth also fluctuated and showed a general downward trend. Instead of detecting these symptoms of a disproportion between agriculture, light industry and heavy industry, we took the erroneous view that the bigger the base, the lower would be the rate of increase, and called this an objective law of economic growth. Worse still, beginning 1958, a "great leap forward" was initiated in heavy industry, resulting in a sharp drop in agricultural production from 1959 onwards and a slump in heavy industrial production that surfaced in 1961. This was a punishment meted out to us by the laws of economics. In 1961 the Party Central Committee shifted to a policy of "readjustment, consolidation, filling out and raising standards", lowering the targets of heavy industrial production and curtailing capital construc-

tion. By 1965, the economy was back on its feet again and, by 1966, it had resumed progress.

Historical experience shows that, since China is still an agricultural country, her economic plans must be based on the principle of taking agriculture as the foundation and industry as the leading factor and must be arranged in the order of priority of agriculture, light industry and heavy industry. If we had conscientiously followed this guideline from the beginning, agriculture, and consequently light industry, would have developed rapidly, resulting in a higher standard of living and a greater financial revenue, which could be used for building up heavy industry as well. This would have meant an ever broader road towards progress, one with a continual rise in industrial and agricultural production and ample supplies for the people. Instead, we attempted to develop heavy industry at the expense of agriculture and the peasants' living standard, and so had to meet the urban people's needs by requisition purchases, state monopoly and rationing, bringing on ever greater difficulties for ourselves. To this day about 80 per cent of China's labour force is still engaged in agricultural production, which includes forestry, animal husbandry and fishery. But some cultivators of grain crops are underfed; some pig breeders seldom have meat. We are still importing for the urban population much of the food grain and part of the cotton, edible oil and sugar. All this points to a disproportionate economy which calls for drastic readjustment. The present economic imbalance is the culmination of a series of occurrences in over two decades, particularly the activities of Lin Biao and the Gang of Four. Except in the five years of readjustment (1961-65), the question of imbalance drew little attention. Accustomed to the status quo, many comrades didn't see requisition purchase, state monopoly and the rationing of more and more items as symptoms of a disproportionate economy, but as manifestations of "the superiority of socialism" and measures indispensable for a planned economy. Contrary to their belief, the widening

range of controls affected the working people's enthusiasm in production and particularly the growth of agriculture. And as agriculture and light industry slowed down the pace of their development, shortages of daily necessities grew rather serious, necessitating more controls and a dependence on imports. The vicious cycle was a result of not giving priority in the order of agriculture, light industry and heavy industry. We must take into full account the danger of this vicious cycle and make up our minds to readjust the proportions between agriculture, light industry and heavy industry and between accumulation and consumption. This will enable us to increase the supply of daily necessities and raise the people's living standard. It is the only way to speed up the four modernizations and ensure a sustained high speed of economic growth.

Planned socialist modernization will be our main task for a fairly long time to come. Whether we attain this goal by the end of the century will decide the destiny of the nation. In view of the present economic disproportions, Hua Guofeng pointed out in his "Report on the Work of the Government" at the Second Session of the Fifth National People's Congress, which convened in June 1979, that beginning then, the country should devote three years to readjusting, restructuring, consolidating and improving the economy in order to gradually shift it onto the path of sustained, proportionate and high-speed development. This is the first battle for the four modernizations. The tasks of readjusting, restructuring, consolidating and improving the economy are inter-related and mutually complementary. Readjustment, which is crucial to the entire economic situation, is aimed at a co-ordinated advance of agriculture, light industry and heavy industry. It calls for balanced progress in the different branches of agriculture and of industry. It also means establishing a proper ratio between the rate of accumulation and the rate of consumption. All this is being coupled with measured but firm steps to effect an overall reform of the structure of economic

management. The existing enterprises, especially the poorly managed ones, will be streamlined to achieve a sharp rise in production, technology and managerial efficiency. As production improves, so will the people's standard of living, demonstrating the superiority of the socialist system.

3. THE STAGES OF SOCIALIST DEVELOPMENT

The two phases of communism are defined by Marx in his *Critique of the Gotha Programme.* In the lower phase, where the means of production are already owned by society as a whole, there is no longer any exploitation of man by man. Nevertheless, labour remains the measure of distribution of the means of subsistence under the principle, "from each according to his ability, to each according to his work". In other words, a certain amount of labour is exchanged for products turned out by an equal amount of labour. In the higher phase of communism, the above principle is replaced by that of "from each according to his ability, to each according to his needs".

In 1956 and 1957, the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce was basically accomplished in the country. The process remained incomplete in capitalist industry and commerce because capitalists still drew a fixed interest and a considerable number of joint state-private stores were responsible for their own profits or losses and in fact served as private dealers for state commercial departments. From 1967, fixed interest for capitalists was abolished and the above-mentioned state-private stores ceased being responsible for their profits or losses. Thus the bulk of industry came under ownership by the whole people, existing side by side with a predominant collective system of ownership by the working people in agriculture. The means of production in the collectively owned sector are the common property of the working people in one particular collective or

another but not that of the whole society. The products of a collective are distributed within its framework and not on a national scale. Socialism characterized by the co-existence of these two systems of public ownership is obviously different from what Marx defines as the first phase or lower phase of communism. It can only be regarded as the lower phase of socialism or immature, imperfect socialism. At the same time, there should be no doubt about its being socialist because the means of production are publicly owned, either nationally or collectively, and exploitation is basically eliminated.

The term "the transition from capitalism to communism" appears in Marx's *Critique of the Gotha Programme,* Lenin's *State and Revolution,* and other works. Over the years, the term has been misinterpreted as meaning the whole process of development from capitalism to the higher phase of communism — a view which has been widely accepted by Chinese theorists. This is clearly not the original meaning of the concept. The transition from capitalism to communism discussed by Marx and Lenin refers to the transition from capitalism to socialism or the first phase of communism. In *The State and Revolution,* Lenin clearly divides the process of growth of communist society into three stages: first, the transition from capitalism to communism; second, the first or lower phase of communist society; and third, the second or higher phase of communist society. If the period of transition from capitalism to communism covers the attainment of the higher phase of communism, how can there be a lower phase of communism after that? Since socialism is the lower phase of communism, Marx terms the transition from capitalism to socialism a transition to communism. In keeping with Marx's formulation, Lenin pointed out in *The State and Revolution*:

> What is usually called socialism was termed by Marx the "first" or lower phase of communist society. In so far as the means of production become *common* property, the

word "communism" is also applicable here, providing we do not forget that this is *not* complete communism.[1]

After the victory of the October Revolution, Lenin often called the transition from capitalism to communism a transition from capitalism to socialism. In his view, the two formulations had the same meaning.

Marx points out that communism is divided into two phases and that socialism is the lower phase. Current history poses a new question to us: Shouldn't socialism also be divided into several phases? In a country with an extensive small peasant economy, we must first transform such an economy into a collective economy and, after a considerably long time, transform the latter into an economy under ownership by the whole people along with the growth of productive forces. Before all means of production come under ownership by the whole society, there is a period in which two systems of socialist public ownership exist side by side. This is the lower phase of socialism, in which China now finds itself. Recognition of this point is highly important because it helps to prevent a premature application of certain principles applicable only to the first phase of communism defined by Marx.

Collective ownership in China needs to be developed for a long time before it phases out. This is just like commodity production in the country, which will not vanish until after a period of considerable growth. The initial realization of agricultural mechanization will not be followed by an immediate, smooth transition to ownership by the whole people because vast differences in income will remain between regions, communes and production brigades and teams. Collective ownership will continue to exhibit its vigour and vitality for quite some time. It will be necessary for the rural areas and, to a certain extent, for the cities as well, to develop collective enterprises responsible for their own profits or losses

[1] Lenin, *The State and Revolution*, Foreign Languages Press, Beijing, 1965, p. 117.

that compete with enterprises under ownership by the whole people. We should fully recognize the protractedness of the socialist period and its division into stages and should not be too anxious to cross over from one stage to another. If we try to do that, the growth of productive forces will suffer, much to the detriment of the consolidation of the socialist system and the transition to communism.

A fully mature socialist society is distinguished mainly by its relations of production, namely, a unitary ownership by the whole people instead of the co-existence of two systems of socialist public ownership. The change is preconditioned by a tremendous growth of the productive forces along with changes in the superstructure and a significant rise in the people's income and in their cultural level. In my view, the following tasks must be fulfilled before a fully mature socialist society takes shape.

1. The modernization of agriculture, industry, national defence and science and technology. Socialism must be built on the material basis of highly mechanized and socialized production, while the relations of production must be suited to the same level of productive forces. And only by rapidly developing our productive forces can we consolidate the socialist relations of production and ensure their further advance.

2. Transition of more than 90 per cent of the country's collectively owned economy to a system of ownership by the whole people. I say more than 90 per cent on account of China's extremely uneven and complicated economic development. Must all agriculture and animal husbandry in the remote mountains and outlying regions be placed in the unified, nationwide system of production and distribution? Even in the cities, wouldn't it be advisable to preserve some collectively owned enterprises in some fields of handicraft production (such as handicraft arts), which may exist for a long time, and in the service trades, where manual labour cannot be done away with altogether? Questions like these cannot be answered conclusively today. The advantages of relations

of production are judged by their fitness to the growth of productive forces and, at a given time, it may not be suitable to place 100 per cent of the economy under public ownership by the whole society.

3. An abundant supply of products ensuring the people's basic material and cultural enjoyments, which will naturally result in the abolition of the rationing of daily necessities. While the system of "to each according to his work" remains in force, the working people will be free to buy the consumer goods they desire with the reward for their labour (money). The people will be provided with sufficient food, clothing, shelter, transportation, medical care and recreation and with better collective welfare facilities such as apartment houses, canteens, nurseries and kindergartens.

4. Universal secondary school education, including middle school and secondary vocational school training; elimination of illiteracy; and the establishment of a large number of institutions of higher learning plus a network of sparetime education throughout the country.

5. A highly developed system of people's democracy which gives the people a true right to participate in the management of state organs, enterprises and public undertakings. The main political function of the state will gradually change from suppression of class enemies to protection of the democratic rights of the people. Naturally, so long as there exists the danger of armed aggression and subversion by imperialism and social imperialism, state organs will continue to safeguard the peace, independence and sovereignty of the country.

When socialism reaches full maturity, it will advance towards the second or higher phase of communism. The conclusion of the first phase may well be the beginning of the transition to the second. It may be necessary to complete in the second phase some tasks left from the first one in the same way as agrarian reform, a task left unfinished during the democratic revolution, had to be completed in the period of the socialist revolution.

Chapter II

PLACING THE MEANS OF PRODUCTION UNDER SOCIALIST OWNERSHIP

1. BUILDING UP THE SOCIALIST STATE ECONOMY — THE LEADING SECTOR

Old China was a semi-colonial, semi-feudal country. The founding of New China marked the completion of China's new-democratic revolution and the beginning of her socialist revolution. The basic task of the new-democratic revolution was to overthrow imperialism, feudalism and bureaucrat-capitalism and establish a people's democratic dictatorship led by the proletariat and based on a worker-peasant alliance. As a general rule, socialist relations of production cannot come into being under capitalism or feudalism. In China, however, rudiments of socialism appeared even before the nationwide victory of the revolution because economic sectors under state and co-operative ownership were established in the revolutionary base areas under Communist leadership.

The socialist state economy expanded in the latter days of the War of Liberation as the People's Liberation Army captured more and more major cities. The people's governments established in these cities confiscated bureaucrat-capitalist enterprises and placed them under state ownership.

On a national scale, the period of transition to socialism lasted from the founding of the People's Republic in 1949 to 1956 when the socialist transformation of the ownership of the means of production was essentially completed. The Communist Party's general line or general task in this period was

to realize in the main, over a fairly long period of time, the country's industrialization and the socialist transformation of her agriculture, handicrafts and capitalist industry and commerce. The task involved a very complicated struggle between socialism and capitalism.

When New China was just founded, her economy was composed of three main sectors: the socialist state sector, the capitalist sector and the sector under ownership by individual peasants and handicraftsmen. Although the individual sector accounted for nearly 90 per cent of the gross value of industrial and agricultural output, it occupied a subordinate position in the economy because of antiquated methods of production. The socialist state enterprises, converted from the Kuomintang's bureaucrat-capitalist enterprises, enjoyed predominance over the national capitalist ones in fixed assets. But they were largely in a state of paralysis at the time of liberation because their equipment had been taken away or even destroyed by the Kuomintang troops on the eve of their retreat. The national capitalist enterprises, which carried on normal operation, were actually much stronger. Of the total industrial output value in 1949, the state sector accounted for 34.7 per cent, the joint state-private sector 2 per cent and the private sector 63.3 per cent. Of the total retail sales in 1950, state commerce accounted for 14.9 per cent and private commerce 85.1 per cent. A struggle for leadership between the socialist and capitalist sectors began with a fight over market prices.

With the liberation of Shanghai and other big cities, the "gold yuan" notes issued by the Kuomintang regime became mere scraps of paper while the Renminbi (people's currency) came into use as the only kind of legal tender. But the People's War of Liberation was still going on and the people's government could hardly balance its budget because it had to supply provisions for nine million troops and civil servants and finance the efforts to restore communication and transportation. Speculators who had fattened themselves through a dozen years of Kuomintang inflation exploited the situation

to profit by hoarding and jacking up prices. For this purpose, they absorbed idle capital at a monthly interest rate of 40 per cent. Industrial and commercial capitalists joined in the stampede, making fabulous profits not from production but from inflation. Under the pressure of the rising prices, industrial workers and civil servants exchanged grain and daily necessities for paper money the moment they got their pay. Peasants simply dispensed with banknotes and traded on a barter basis. The limited amount of paper money in circulation was proof that the entire problem had been caused by the speculators. Unless market prices were stabilized, it was impossible to rehabilitate production, ease the people's life and establish the leading position of the socialist state economy.

Early in 1950, the people's government centralized the management of financial and economic affairs, including revenue and expenditure, the allocation of funds and supplies, and the handling of cash payment. It established rigid control over grain, the main target of the speculators' panic buying, by collecting public grain (the agricultural tax) from the peasants and purchasing their surplus grain. After these preparations, it mounted a surprise counter-attack in the days after Spring Festival when the speculators in Shanghai and elsewhere were more active than ever. State commercial departments dumped large quantities of grain on the market for sale at relatively low prices. For three days the speculators rushed to buy it until they had used up nearly all the idle capital they could collect. After a few more days they were compelled to sell their grain at a loss in order to pay their short-term, high-interest loans. The price of grain fell, and so did the prices of other commodities. The speculators received a crushing blow, while industrial and commercial capitalists who had joined in the game also landed themselves in dire straits because they could find no market for their hoarded grain. Many had no money to buy raw materials or pay the workers' wages and so asked the people's government for help. This victorious battle to stabilize prices enabled the

socialist state economy to establish its control over the market as well as the capitalist sector.

As soon as prices became stable, people were willing to keep their money. The banknotes in circulation fell short of demand. The people's government issued more money to promote economic development. First, the state needed money to pay for the grain, cotton and other farm produce purchased from the peasants, who used it to buy means of production for the recovery and growth of agriculture as well as manufactured goods for their use, promoting industrial growth in the process. Secondly, the state needed money to purchase the goods stockpiled by private industrial and commercial enterprises, enabling them to get over their financial difficulties and restore production at a faster pace. Of the private industrial enterprises, the largest number were textile mills, and the second largest were flour mills. Most of the cotton and wheat they needed were in the hands of the state. The state provided them with raw materials and placed orders for the finished products, paying them for the processing. This practice was welcomed by the capitalists because it gave them three things: a source of raw materials, a market, and a reasonable profit. Conducting production according to state requirements, they were actually guided onto the road of state capitalism. The state purchased large quantities of farm produce through its supply and marketing co-operatives and acquired enormous volumes of manufactured goods by placing orders with private enterprises. As a result, the state gained control of the major part of the wholesale trade. All this resulted in state leadership over peasants, handicraftsmen as well as private industry and commerce — a decisive victory of the proletariat over the bourgeoisie and of socialism over capitalism in the struggle for economic predominance.

More than ten years of war and inflation before the founding of New China had jammed the commercial interflow between town and country. As soon as commercial speculation was crushed and market prices stabilized in the post-liberation

period, the artificial purchasing power backed by idle capital vanished, giving rise to a temporary phenomenon of overproduction. For a time, it seemed difficult to market manufactured goods, farm produce and various kinds of local and specialty products. The people's government therefore organized a drive to promote the exchange of goods between the cities and the countryside. State commercial agencies and private businessmen were called upon to sell manufactured goods in the rural areas and farm produce and local and specialty products in the cities. Many kinds of merchandise once regarded as unsalable found a ready market, much to the benefit of industrial and agricultural production.

Owing to the ravages of the war, production had dropped 25 per cent in agriculture, 30 per cent in light industry and 70 per cent in heavy industry at the time of the founding of New China. After three years of rehabilitation, grain output increased from 103 million tons in 1949 to 166 million tons in 1952, 11.3 per cent above the peak annual output in history. Cotton rose from 450,000 tons to 1.3 million tons, 53.6 per cent above the highest pre-liberation level. Steel went up from 160,000 tons to 1,350,000 tons, 46 per cent above the previous record. Coal jumped from 32 million to 66 million tons, 7 per cent above the historical peak. The economy grew in the course of rehabilitation, providing the material conditions for initiating the First Five-Year Plan in 1953.

During the three-year rehabilitation, the balance of forces between socialism and capitalism changed significantly in the economic sphere. In 1952, state-owned industry accounted for 56 per cent of the nation's gross industrial output value as against 34.7 per cent in 1949; the proportion contributed by joint state-private enterprises working on state orders went up from 9.5 to 26.9 per cent in the same period; while the portion produced by enterprises operating on their own dropped from 55.8 to 17.1 per cent. The socialist state sector and the state capitalist sector had become predominant in industry. In commerce, business transacted by state commercial departments

and supply and marketing co-operatives accounted for 63.7 per cent of the turnover in wholesale trade in 1952 as against 23.9 per cent in 1950, while their proportion in retail trade rose from 14.9 to 42.6 per cent. Although private firms handled the greatest part of retail trade, a great number of them served as distributors or commission agents for state wholesale dealers and, like the private enterprises working on state orders in industry, had been channelled into state capitalism. Agriculture and handicrafts remained an economy of individual producers. By 1952 only 0.1 per cent of all peasant households had joined agricultural producers' co-operatives and only 3 per cent of all handicraftsmen had formed handicraft co-operatives. But the peasants and handicraftsmen were also to a large extent guided by state plans since the supply and marketing co-operatives supplied them with most of the articles of consumption and handled the sales of most of their products and, in the case of the handicrafts, provided most of the raw materials. All this created favourable conditions for the socialist transformation of the ownership of the means of production in agriculture and in the handicraft industry.

The victory of the socialist sector over the capitalist sector in the economy was made possible, first and foremost, by the overthrow of the Kuomintang's reactionary rule after 22 years of revolutionary wars and the establishment of the people's democratic dictatorship led by the proletariat and based on a worker-peasant alliance. There could be no socialist economy without a government led by the proletariat. Secondly, the victory was also a result of the confiscation of bureaucrat-capital and the rise of a powerful socialist state economy. Even if we were strong politically, we could not have defeated the economic forces of capitalism had our economic strength not been equal to the task. Thirdly, we isolated the bourgeoisie by rallying the peasants and other small producers around us, not only politically but also in the sense of giving them economic organization and leadership. Finally, we adopted the policy of utilizing, restricting and

transforming the national capitalist economy, i.e., a policy of bringing into play its positive role beneficial to the economy and the people's livelihood, restricting its negative role detrimental to the economy and the people's livelihood, and carrying out its gradual socialist transformation through various forms of state capitalism. With regard to members of the national bourgeoisie, we adopted a policy of uniting with, educating and remoulding them, handling their contradictions with the proletariat as contradictions within the ranks of the people. This represented Mao Zedong's important advancement of the theory of proletarian revolution enunciated by Marx and Lenin.

The victory of the socialist sector over the capitalist sector in China's economy was also a result of our correct application of the laws governing the socialist economy, our reliance on the superiority of the socialist economic system and our proper use of the law of value and the capitalist law of surplus value. After the founding of New China, we immediately put the market under our direction and took into our hands industrial and agricultural products vital to the economy and the people's livelihood. We administered private industry and commerce by the aforementioned state capitalist measures and exercised leadership over individual peasants and handicraftsmen through supply and marketing co-operatives. At the same time, we provided capitalist industrial and commercial enterprises with reasonable profits by paying them for processing jobs and purchasing their goods at fair prices. We also guarded the interests of the peasants and handicraftsmen by a correct pricing policy. The bourgeoisie had controlled the small producers through the market and exploited them by unequal exchange, whereas we organized them and gave them leadership through the market. Correctly handling the purchasing prices of agricultural and handicraft products and the sales prices of manufactured goods and eliminating exploitation by middlemen, we enabled the peasants and handicraftsmen to develop production and lead a better life. It has been practi-

cally proved that in a socialist revolution we must skillfully make use of the objective laws governing economic development. If we don't, our chances of success are slim, and even if we did succeed, the cost would be high and industrial and agricultural production would suffer severely as a result.

2. THE SOCIALIST TRANSFORMATION OF CAPITALIST INDUSTRY AND COMMERCE

The capitalist economy in old China was divided into two sectors: bureaucrat-capitalism and national capitalism. Bureaucrat-capital clung to imperialism and collaborated with the landlord class. While exploiting the workers, peasants and other working people, it also rode roughshod over the national bourgeoisie. The bureaucrat bourgeoisie and the landlord class were the targets of the new-democratic revolution. In the period of the democratic revolution we confiscated the land of the landlords as well as the enterprises owned by bureaucrat-capital. The confiscation of bureaucrat-capital had a dual significance. As bureaucrat-capital was compradore capital in the service of imperialism, its confiscation was an act of democratic revolution. As bureaucrat-capital was also monopoly capital, its confiscation was an act of socialist revolution.

National capitalism in China was oppressed by both imperialism and bureaucrat-capitalism and thus stood in contradiction with them. On the other hand, however, the national capitalists were tied to imperialism and bureaucrat-capitalism in many ways and some of them thought they might be able to depend on the latter for survival. This was why the national bourgeoisie wavered in the new-democratic revolution, showing a tendency towards the revolution as well as a tendency to compromise with the enemy. Thanks to the Party's correct united front policy in the War of Resistance Against Japanese Aggression and in the War of Liberation, most members of the national bourgeoisie either supported the revolution or took

a neutral stand. Many of their representatives joined the anti-Japanese national united front and later the united front against Chiang Kai-shek. After the founding of New China, our Party continued to maintain the united front with the national bourgeoisie on the basis of consolidating the worker-peasant alliance. Mao Zedong pointed out that we had two alliances: the alliance with the peasants and the alliance with the national bourgeoisie. Both alliances were very important, but the former was the basic one. In view of China's economic backwardness, we had to make use of national capitalism in the interest of the country's economic growth. That was why we adopted a policy of utilizing, restricting and gradually transforming it. Confiscation of bureaucrat-capital and step-by-step transformation of the national capitalist economy through the medium of state capitalism — this was an important policy adopted by the Party under the leadership of Mao Zedong.

Marx and Engels pointed out that under given conditions the proletariat might adopt a policy of "buying off" the bourgeoisie. After the Russian October Revolution, the proletariat gained control of the economic lifelines of the country. Lenin proposed to buy off a section of the bourgeoisie through state capitalism in order to obtain manufactured goods for the peasants and train the proletariat in economic management. The Russian bourgeoisie, however, did not believe that the proletariat could maintain state power. They tried to sabotage the economy and finally launched an armed rebellion, compelling the Soviet government to take drastic measures to confiscate the property of all capitalists. After foreign armed intervention and internal armed rebellion were smashed, Lenin once again advanced the policy of state capitalism and announced the government's readiness to lease a number of factories and mines to foreign and domestic capitalists in order to rehabilitate and develop big industry at a faster pace. But the policy didn't work because it was rejected by the bourgeoisie. China was the first country in which the proletariat succeeded

in "buying off" the bourgeoisie and transforming capitalist economy through state capitalism.

As the people's government in China did not confiscate the enterprises owned by national capital, there was no question of leasing them to the capitalists as proposed by Lenin. Instead, state capitalism in the form of joint state-private enterprises emerged through the intermediary stage of capitalist enterprises working with raw materials supplied by the government and selling the manufactured goods to the latter or acting as dealers in state goods. As mentioned earlier, after the stabilization of commodity prices, the capitalists willingly accepted state orders which ensured their sources of raw materials, the marketing of their products and their reasonable profit. As far as the state was concerned, placing orders with private enterprises meant controlling the circulation of their products and cutting off their ties with the market and, to some extent, directing their production. The capitalists could no longer reap fantastic profits through speculation and had to produce according to state requirements. The anarchy in production, typical of capitalism, was partially eliminated. For these reasons, placing state orders with private enterprises was called an elementary form of state capitalism, a kind of capitalist economy controlled and orientated by the state. As usual, the capitalists worked for profit, but they were obliged to submit to state planning and meet the needs of the government and the people. While placing orders with private enterprises, the state regulated their lines of business by raising or lowering the profit rate according to market demand, giving a socialist character to their production.

The policy of placing state orders with private enterprises didn't mean the abolition of class struggle, which remained acute in those years. In 1950, when capitalist industry and commerce had difficulties, the capitalists were willing to accept state orders but bargained stubbornly over their processing charges and the prices to be paid for their goods. In 1951, a market shortage appeared after the outbreak of the War to

Resist U.S. Aggression and Aid Korea. The capitalists seized the chance to jack up prices and showed reluctance to accept processing or manufacturing jobs from the state; some even refused to carry out signed contracts seriously. In fact, they waged a struggle against the proletarian state by resorting to such illegal means as bribery, tax evasion, theft of state property, cheating on government contracts and stealing of economic information. The Party Central Committee was compelled to initiate a campaign against the "three evils" and "five evils"[1] to ferret out those serving as agents of the bourgeoisie within state organs and enterprises and to smash the attacks launched by the bourgeoisie by the aforementioned means. The victory of the campaign again forced capitalist industrial and commercial enterprises into a situation where they had to accept the leadership of the socialist state economy and work conscientiously on state orders.

In 1953, China started her First Five-Year Plan for socialist construction. The socialist economy developed rapidly and significant changes took place in the balance of forces between the various economic sectors. In pre-liberation days, the equipment in bureaucrat-capitalist enterprises had been better than that in national capitalist enterprises. After the former were taken over by the people's government, their equipment was improved through technical renovation. A number of modern enterprises were completed, adding to the strength of the socialist state economy and bringing its superiority over the capitalist enterprises into fuller play. With their outdated equipment and poor management, the capitalist enterprises could hardly compete with state enterprises. The government, however, did invest in the expansion and recon-

[1] The campaign against the "three evils" refers to the struggle against corruption, waste and bureaucracy in government offices and state enterprises, with emphasis on the struggle against corruption, including bribery. The campaign against the "five evils" refers to the struggle against the five illegal acts of the capitalists listed in the text.

struction of some capitalist factories producing urgently needed goods, and these factories became joint state-private firms in the process. Joint state-private operation pushed up production and provided the capitalists with reasonable profit. This development prompted many private factories to apply for joint operation, an advanced form of state capitalism, instead of merely working on state orders. In fact, joint state-private enterprises had appeared at the time of the founding of New China. This was because shares in many private enterprises were owned by Kuomintang officials and even war criminals and were confiscated by the people's government immediately after liberation. Small in scale and managed by capitalists or their agents, this first batch of joint-private firms were hardly distinguishable from private enterprises. The joint state-private enterprises established later were bigger and were directed by state personnel with the capitalists or their agents taking part in management. Such enterprises were largely socialist in nature.

After capitalist enterprises switched over to joint state-private operation, the state invested in their expansion and reconstruction. Production increased rapidly and so did profits, much to the delight of the capitalists. Beginning in 1954, the state instituted joint state-private operation in the larger private factories. The growth of state-owned and joint state-private enterprises placed the remaining medium and small private enterprises in a more difficult position and they too applied for joint operation. But the state could not rebuild or expand such a large number of small and poorly equipped factories. The only solution was to shift them to joint state-private operation by each trade and reorganize them on a rational basis. Many small factories were merged as one, which was furnished with new or renovated equipment. In early 1956, capitalists from all different trades in Beijing applied for joint state-private operation on a trade-wide basis and those in other cities followed suit. The state approved

their requests. This marked a decisive victory in the socialist transformation of China's capitalist industry and commerce.

Joint state-private operation by whole trades was a higher stage of development of state capitalism. It required a change in profit distribution. When an individual enterprise switched over to joint operation, it was responsible for its own profits or losses, and the profits were distributed by the shares, which were jointly owned by the state and by individuals. An enterprise making more money naturally had more profit to distribute among the shareholders. As soon as joint operations were started on a trade-wide basis and enterprises in a trade were merged or reorganized, it became impossible for each enterprise to distribute its own profits, because a prosperous firm would not have been willing to merge with a poorer one if the old practice of profit distribution were to be followed. In consultation with the capitalists, the state introduced the fixed interest system by which profits were distributed on a unified basis. The stocks and assets of each enterprise were reappraised and, on that basis, the capitalists of all enterprises drew a fixed annual interest of five per cent of their shares in disregard of profit. With the introduction of this system, the capitalists were no longer interested in how much profit the enterprises made and gave the state a free hand to go ahead with the merger and reorganization of enterprises, and joint enterprises came under state management completely. The capitalists or their representatives were assigned suitable posts in the enterprises and became staff members. Such joint state-private enterprises, except for the fact that the capitalists were still drawing a fixed interest, were not much different from state enterprises and were basically socialist in nature. In 1967, during the high tide of the Cultural Revolution, payment of fixed interest to the capitalists was terminated. Thus all joint state-private enterprises were incorporated in the socialist state economy.

The step-by-step transformation of the private capitalist sector of the economy through various forms of state capitalism

enabled private capitalist enterprises to grow in the course of transformation instead of suspending operation or slashing production. In the seven years between 1949 when New China was founded and 1956 when capitalist enterprises switched over to joint operation by whole trades, the output value of private capitalist industry nearly doubled. Meanwhile, the output value of socialist state industry increased 3.3 times. In 1956, the output value of socialist state industry accounted for 67.5 per cent of the gross industrial output value, joint state-private industry contributed 32.5 per cent and practically nothing came from private capitalist industry because it was almost non-existent. In wholesale trade, state and joint state-private commerce accounted for 97.2 per cent of the turnover and private commerce only 2.8 per cent; in retail sales, state commerce accounted for 68.3 per cent, joint state-private and co-operative commerce 27.5 per cent and private commerce only 4.2 per cent. In production growth, the state-owned sector registered the fastest rate, the joint state-private sector came second and the private sector third. The speed had to do with the quality of equipment, the enthusiasm of the workers and the rational use of the means of production. In all these respects the socialist economy enjoyed the greatest superiority.

The changeover of private enterprises to joint state-private operation by whole trades in 1956 was a decisive victory in the socialist transformation of capitalist industry and commerce. This process, which came about under the impact of a high tide in the movement to set up agricultural co-operatives, developed a bit too fast. The vast numbers of small enterprises in industry and especially in commerce had a positive role to play in the economy. Excessive amalgamation resulted in a reduction in the variety of miscellaneous goods and a shrinkage of the commercial network, causing inconveniences to the public. When the transformation had just been completed, many joint state-private stores continued to be responsible for their own profits or losses and distribute

state goods, earning the differences between wholesale and retail prices. Beginning in 1958, and particularly during the Cultural Revolution (1966-76), the joint state-private stores were merged with state stores or became their branches. Thus commerce was placed under state monopoly, which led to a further decrease in the variety of goods. Some stores no longer sold their specialties and, in many instances, there was a decline in the quality of service. This shows that within a given period of time, it would be a good idea to maintain versatility and flexibility in urban industry and commerce, while a premature changeover to a system of ownership by the whole people may not be in the interest of the growth of production and the people's livelihood.

3. THE SOCIALIST TRANSFORMATION OF AGRICULTURE UNDER INDIVIDUAL OWNERSHIP

After the completion of agrarian reform, the small peasant economy embraced the overwhelming majority of the population. The landlord economy had been eliminated together with the economy of the old-type rich peasants.* After acquiring land, the poor peasants fared much better, and the farm hands became small individual producers. In spite of these improvements, however, the peasantry remained poor. Each household tilled only ten-odd *mu* of land with some small farm implements, and few of the households had draught animals. Labour productivity was low and accumulation meagre. The peasants were sometimes incapable of conducting simple reproduction, let alone extended reproduction. Mao Zedong pointed out:

> Among the peasant masses a system of individual economy has prevailed for thousands of years, with each family or

* As distinguished from modern capitalist farmers, the rich peasants in pre-liberation China generally engaged in feudal or semi-feudal exploitation. — *Trans.*

household forming a productive unit. This scattered, individual form of production is the economic foundation of feudal rule and keeps the peasants in perpetual poverty. The only way to change it is gradual collectivization. . . .[1]

For generations, vast numbers of peasants had looked forward to the day when they could till their own land. Once their dream had come true, they thought they were in a position to get rich by hard work. But this was not so easy because of the country's large population, insufficient arable land, frequent natural calamities and backward production conditions. Most of the peasants were not well off, and a polarization between rich and poor was inevitable. All this accounted for the dual position of the peasantry: while they were enthusiastic about developing an individual economy, they were also capable of taking the socialist road of mutual aid and co-operation. Mao Zedong pointed out in good time the need to kindle the socialist enthusiasm of the poor peasants and the lower stratum of middle peasants and lead the vast peasant masses onto the road of mutual aid and co-operation. Even in the early years of the revolutionary wars, peasants in the liberated areas formed many labour mutual aid teams and a few agricultural producers' co-operatives, which accumulated valuable experience for carrying out the socialist transformation of agriculture after agrarian reform. In Soviet Russia, experiments in agricultural co-operation were initiated under Lenin after the Russian October Revolution. But it was not until the late 1920s and early 1930s that the Communist Party developed a suitable form of organization for the collective economy. In China, we avoided some of the detours taken in the Soviet Union by making it clear from the outset that agricultural collectivization must be carried out step by step, that it must proceed from mutual aid teams in agricultural production to elementary agricultural producers' co-operatives

[1] Mao Zedong, "Get Organized", *Selected Works*, Foreign Languages Press, Beijing, 1977, Vol. III, p. 156.

of a semi-socialist nature and then to advanced agricultural producers' co-operatives of a socialist nature.

Labour power and farm tools were distributed unevenly among the peasants, and draught animals often had to be shared by several households. These problems were solved to some extent after the formation of mutual aid teams, for human labour could now be exchanged for the use of draught animals, and labour productivity was raised in general. But land was still owned and cultivated by each household, and the scattered patches of land presented an obstacle to efficient farming. To put the soil to better use, it was necessary to link up the patches belonging to different households. This was done through the formation of elementary co-operatives, in which the peasants, while retaining private ownership of their land, pooled it together for common use and management. Draught animals and big farm implements also remained under private ownership but were used jointly by the co-op members. Thus the income was distributed according to work as well as investments in the form of land, draught animals and farm implements. The income from land ownership was known as "dividends on land". All this meant that some members appropriated the fruits of labour of others on account of their possession of means of production. But as the elementary co-operatives developed their collective economy, they accumulated more and more public property and increased the proportion of the income which the peasants earned by work. This made it both necessary and possible to abolish the dividends on land and other means of production and change over to the advanced form of agricultural producers' co-operatives by transferring land, draught animals and farm implements to public ownership with compensation to the owners. In the advanced co-ops, the products of labour were all distributed according to work after deductions were made for the depreciation costs of the means of production, state taxes and a small amount of reserve fund and public welfare fund. The

advanced co-ops were the working people's collective economic organizations of a socialist character.

The socialist transformation of China's agriculture was completed at a high speed. After the completion of agrarian reform, the Party Central Committee decided to "strike while the iron is hot" by following it up with a mutual aid and co-operation (collectivization) movement in agriculture. The announcement of the general line for the transition period in 1953* speeded up the process. The Party Central Committee had planned to complete agricultural co-operation in 15 years, but things came to a head in 1955. While only two per cent of the peasant households were in co-ops in 1954, the figure rose to 14.2 per cent in 1955 and shot up to 96 per cent, with 88 per cent in advanced co-ops, by the end of 1956. Most of the co-ops formed at the end of 1956, however, had not yet had time to organize collective production and distribution. Agricultural co-operation in China was actually completed in 1957.

Whether it was possible to realize agricultural co-operation or collectivization before the mechanization of farming was a subject of heated debate in those days. Some comrades argued that China's agriculture must first be mechanized before it could be collectivized. But in a country like China with her large population and inadequate arable land, it would be very difficult to achieve mechanization on the basis of a small peasant economy which could accumulate little by operating on a per household average of ten-odd *mu* of land. Ours is a socialist country with a large socialist industry, and our agriculture cannot possibly take a capitalist road. Proceeding from China's actual conditions, Mao Zedong pointed out that in China, co-operation must precede mechanization. But after the realization of agricultural co-operation, we should have pressed ahead by placing the collective economy under efficient management, developing agricultural production and raising labour productivity in agriculture as the only way to

* Cf. pp. 18-19 in this book. — *Trans.*

consolidate the socialist collective economy, for co-operative farming based on manual labour could hardly be consolidated and might slide back to individual ownership. In fact, a return to individual farming did take place in some areas, such as the practice of "fixing farm output quotas for each household" and division of land among commune members for them to "go it alone." This had to do with the fact that our collective economy was, as it still is, based chiefly on manual labour.

Cautious steps were taken to carry out agricultural co-operation at a steady pace in the first few years and agricultural production rose from year to year on account of this policy. But the drive took on too much speed in 1956, causing a decrease in the growth rate of agricultural production and in the number of livestock. In 1958 agricultural co-operatives were suddenly changed to people's communes. In some regions, the commune was hastily empowered to conduct unified production and distribution in its locality. In some counties, the communes were even combined to carry out unified distribution on a county-wide basis, a step which changed collective ownership to state ownership in actual effect. A "communist wind" was stirred up, whereby equalitarianism prevailed and human and material resources were transferred without regard to the actual collectives to which they belonged. All this naturally dampened the enthusiasm of the peasants and cadres at the grassroots. Coupled with other reasons, it resulted in a slump in agricultural production for three successive years (1959-61). The Party Central Committee began to correct this "Left" tendency from the winter of 1958 and the spring of 1959, but it was no easy task. In December 1958, the Sixth Plenary Session of the Eighth Central Committee of the Party adopted a "Resolution on Some Questions Concerning the People's Communes", which defined the differences between socialism and communism, between collective ownership and ownership by the whole people, and called for adherence to the principle of distribution according to work and observation of the laws of

commodity production. In spite of this, the resolution still regarded the transition from collective ownership to ownership by the whole people as a fairly simple matter. At the Zhengzhou Conference held in February 1959, Mao Zedong criticized this tendency, known as the "communist wind", pointing out that the people's commune should practise a three-level ownership with the production brigade as the basic unit for production and distribution (also called the basic accounting unit). This provision was again found to be incommensurate with the level of productive forces and in the 1961 "Working Regulations of the Rural People's Communes (Draft)", otherwise known as the "60 Articles", the production team was generally made the basic unit for production and distribution whereas the production brigade remained the basic unit only if its output was exceptionally high and its leadership unusually strong. After the publication of the "60 Articles" in 1962, the relations of production in rural areas were stabilized and agricultural production speedily rehabilitated and expanded. Practice shows that objective economic laws are not to be violated, or else people will suffer. Problems arose in 1958 mainly because we expected to do too much through a change in the relations of production, including ownership, overlooking the law that the relations of production must conform to the growth of productive forces. Production resumed its growth as soon as we corrected our mistakes by readjusting the relations of production to the level of productive forces.

For a long time we were not sufficiently aware of the difficulties involved in the socialist transformation of an agriculture based chiefly on manual labour and the protracted nature of the task. We were often too anxious to cross from one stage to another and so caused losses to agricultural production. Socialism has to be based on large-scale socialized production. While our realization of agricultural co-operation before mechanization was a rare achievement, we should have

fully recognized that this was an immature, imperfect kind of socialism which could not but retain vestiges of the old society. We should have made careful use of such imperfect socialism to develop agricultural productive forces and lay a solid material basis for a gradual improvement of the system. However, many of our comrades did not see that the low level of productive forces was the main obstacle to the consolidation of collective ownership in agriculture. Instead, they took the lopsided view that the trouble lay in the peasants' spontaneous tendency towards capitalism and often resorted to "cutting off the tails of capitalism" as a means of consolidating the collective economy. Contrary to their wishes, agricultural production declined and so did the peasants' standard of living, while it was becoming even harder to consolidate the collective economy.

It is universally accepted that the relations of production must conform to the level of productive forces. But people differ on the question: what is meant by the non-conformity of the relations of production with productive forces? For a long time, many of our comrades believed that this non-conformity lay in the relations of production falling short of the *requirements* of the growth of productive forces. They did not see that a change in the relations of production much too fast for the growth of productive forces would impede or even undermine the latter. Thus they held that the only kind of mistakes that could occur in the socialist period were Right and not "Left" ones, and even criticized "Left" mistakes as manifestions of a "Right deviationist line". This gave rise to the wide-spread idea that a "Left" deviation was better and so more preferable than a Right one. Consequently, during the Cultural Revolution, the nation's economy was pushed to the brink of collapse. We must act on the principle that "practice is the sole criterion of truth" and review our experience by calling a spade a spade. This is the only way to avoid similar mistakes.

4. THE SOCIALIST TRANSFORMATION OF THE HANDICRAFTS AND SMALL BUSINESSES UNDER INDIVIDUAL OWNERSHIP

The socialist transformation of China's individual handicrafts also took the form of co-operation. At the time the People's Republic was founded, handicraft workships and household handicrafts accounted for about 20 per cent of the country's gross industrial output value, while handicraft products accounted for 60 to 70 per cent of the manufactured goods consumed by the peasants. Back in the period of the new-democratic revolution, various kinds of handicraft co-operatives, mainly supply and marketing co-operatives and co-operative groups, were formed in the base areas of the revolution to meet the needs of the army and the civilian population and break the enemy blockade. After the liberation of the whole country, handicraft co-operatives of a mass character developed with speed.

Unlike the situation in agriculture, most of the individual handicraft shops were engaged in commodity production. Raw materials and a market were most essential for their production. Thus it was necessary to organize them first in a supply and marketing network directed by the state sector of the economy to help them obtain raw materials, market their products and free themselves from dependence on the commercial capitalists, in the course of which the handicraftsmen would be won over to a collectivist outlook. On this basis they could be further organized for joint production and their shops changed over to collective ownership.

The socialist transformation of China's handicrafts went through three stages: (1) handicraft supply and marketing co-operatives; (2) handicraft producers' co-operatives; and (3) co-operative factories.

Under the direction of the state sector of the economy, the handicraft supply and marketing co-operatives supplied raw materials to and purchased products from its members,

each consisting of a household or a workshop.[1] These co-ops also ensured their earnings by reasonable pricing. While acting as a supplier of their raw materials and purchaser of their products, some co-ops pay them a processing charge. The supply and marketing co-ops detached handicraftsmen from commercial capital and attached them to the socialist state sector of the economy. In this sense they were semi-socialist in nature.

Since the co-ops freed their members from exploitation by commercial capital and guaranteed stable prices for their goods, the latter were assured of a steady rise in production and a fair income. But as they continued to operate in their own households or workshops, they could hardly effect a division of labour or co-ordinate their work, let alone adopt modern technology. The work tools were owned by the handicraftsmen. Though quite simple, they varied in quality and so made differences in their income. Thus it was impossible to carry out the socialist principle of rewarding equal labour with equal products. To raise labour productivity, it was essential to change these handicraft supply and marketing co-operatives to handicraft producers' co-operatives, which owned both the means of production and the products and rewarded their members according to their work and the collective income. Adopting the principle of equal pay for equal work, a co-operative became a collective enterprise of a socialist nature.

In 1955, an upsurge in agricultural co-operation was followed by one in handicraft co-operation. By the end of 1956, more than 90 per cent of the handicraftsmen were organized in producers' co-operatives against only 13.6 per cent in 1954. The socialist transformation of handicrafts was basically completed.

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[1] A workshop differed from a household in that the handicraftsman in a workshop employed one or two apprentices or workers whereas the labour force in a household consisted of members of the same family.

Between 1958 and 1960, many handicraft co-operatives in China were upgraded to co-operative factories replacing hand labour with machine operation. The co-operative factories paid the workers regular wages and handed over their profits to a higher level (a united county co-operative or a united city co-operative) for disposal. The workers received wages according to a unified pay scale worked out by the higher authorities, and the principle of equal pay for equal work was basically carried out in all co-operative factories. These factories were regarded as an intermediate system between collective ownership and ownership by the whole people. In principle a co-operative factory should assume sole responsibility for its profits or losses and determine the pay for its members according to its productive and managerial performance. But it has been stipulated rigidly that workers of a co-operative factory should draw fixed wages and that their pay and welfare subsidies should be a little lower than those in a state-owned factory. Such rules are harmful to the growth of co-operative factories and should be changed at once.

China's co-operative factories were placed under the Handicraft Administrative Bureau in a city or county, which has now been renamed the Second Light Industry Bureau. While state-owned factories delivered all their profits to the state, co-operative factories handed in about 50 per cent to the state and the remainder to the Second Light Industry Bureau for technical improvement in these factories and the establishment of new co-operative factories. That was why over the years such "big collective" industry in many areas has grown faster than state industry. This experience deserves careful study.

The handicrafts will exist for a long time as an aid to large socialist industry. As living standards rise, people will demand better food and clothing, and the need for manual labour will increase, not decrease. Manual labour will exist for a long time in the repair and service trades. The drive

to put the handicrafts on a co-operative basis proceeded a bit too fast in 1956. In a number of places, different kinds of handicrafts were organized in a single co-operative. This affected the variety of products and the quality of famous brands. The Party Central Committee gave timely instructions and corrected this defect. In 1958, many handicraft co-operatives were merged as co-operative factories. While this played a positive role in mechanizing production and increasing output, it also caused a further decrease in variety and made it difficult for handicraftsmen to produce directly for the varying needs of consumers and do repair jobs as they had done before. Instead of over-concentration, it seems necessary to preserve a certain number of scattered handicraft co-operatives for manual production and permit a small number of individual handicraftsmen and small traders to peddle their wares. This will not only provide better service to consumers but create more jobs.

Until 1956, the socialist transformation of China's small stores and vendors was carried out mainly by making them retailers of goods distributed by state commercial enterprises and letting them earn the differences between wholesale and retail prices. During the upsurge of socialist transformation in 1956, the co-operation movement was extended to small stores and vendors. In fact, many small stores were incorporated into state stores. Other small stores and vendors were organized in co-operative stores or co-operative groups, while a considerable number of small stores and vendors continued to operate on their own. In the interest of consumers, the small stores should not be over-concentrated but kept dispersed. This is particularly true of the food and service trades, the over-concentration of which would cause much difficulty to consumers. Beginning in 1958, many co-operative stores and groups were incorporated into state stores while small stores and vendors responsible for their own profits or losses were almost nowhere to be found. Thus people had to stand in long lines to get a meal or some groceries.

It seems necessary to restore, particularly in the food, repair and service trades, a large number of financially independent co-operative stores and groups which operate during hours convenient to customers. Specialty foods should again be made available and further improved. A socialist country should enrich and diversify the people's life instead of making it crude and monotonous.

The socialist transformation of commerce created another serious problem, i.e., with the disappearance of private businessmen engaged in the long-distance transport of commodities, the channels were cut off for the flow of many kinds of farm produce and side-line products as well as local and specialty products from the countryside to the cities. The supply and marketing co-operatives alone could not handle thousands of kinds of sundry goods. Many kinds of local products, including mountain products, rotted in the valleys or fields because there was nobody to carry them away. The income of the peasants dropped, and so did supplies to the cities. The output of local and specialty products in mountainous and pastoral areas fell by 70 to 80 per cent as compared with the early years after liberation, and they became unavailable in the cities for a long time. Handicrafts made of local materials in these areas were no longer produced because of sales difficulties. This experience shows that, to develop rural side-line production and increase the peasants' income and to ensure supplies to the cities, it is necessary to expand the interflow between town and country by permitting supply and marketing co-operatives and enterprises run by communes and their subdivisions to sell their farm produce, side-line products, local and specialty products and handicrafts in the cities. It would also be advisable to organize, under the direction of local governments or people's communes, a number of transport and marketing co-operatives responsible for their own profits or losses for bringing goods to distant areas. In this way, the interflow between town

and country will not stop with socialist transformation but see a steady growth.

Since the completion of the "three major transformations", i.e., those in agriculture, handicrafts and capitalist industry and commerce, free markets have continued to exist in rural areas and city suburbs. Here the peasants exchange their products and supply limited quantities of farm produce to the urban people in addition to the bulk provided by state commercial departments. Since the peasants have private plots and are engaged in household side-lines and many production teams also have a surplus to sell after fulfilling state quotas, such free markets are needed by both the peasants and the urban people. At these markets, prices fluctuate with supply and demand and in turn regulate the latter. So long as agricultural production develops smoothly and the purchasing power of the whole society and the commodities supplied are roughly equal, free market prices will not show great variances from state prices. During 1959-61, a decline in agricultural production and an over-supply of currency resulted in sharp rises in free market prices, which affected state purchase of agricultural products. But this was basically caused by disproportions in the economy and had little to do with the free markets. Prices cannot be stabilized by the abolition of free markets, which will only make life more difficult for the urban and rural people. From 1962 to 1966, as industrial and agricultural production recovered and developed in the course of economic readjustment, prices returned to normal at the free markets.

Chapter III
TWO SYSTEMS OF SOCIALIST OWNERSHIP

1. IMPORTANT DIFFERENCES BETWEEN THE TWO SYSTEMS

By 1956, the means of production in the country were generally placed under socialist ownership, which nevertheless took two different forms, i.e., onwership by the whole people in the state economy and collective ownership in the co-operatives. In 1958, the agricultural producers' co-operatives developed into rural people's communes. In 1967, with the abolition of the fixed interest paid to private industrialists and businessmen, joint state-private enterprises became state enterprises or, in other words, they came under ownership by the whole people. Recent years have seen the establishment of industries run by communes or production brigades in rural areas, which are under collective ownership, and the appearance of new collective enterprises in cities and towns. These have been important developments in the two systems of socialist ownership since 1956.

Ownership by the whole people and collective ownership are both socialist in nature. The difference lies in the degree of maturity. The former is a higher form of socialist public ownership under which the means of production belong to all the working people as represented by the state under the dictatorship of the proletariat. Such means of production are essentially the public property of society as a whole. Collective ownership is a lower form of socialist public ownership, under which the means of production are not yet the public property of society as a whole but belong to the working people

in one economic collective or another. In the economic sector under collective ownership, production is carried on with the leadership and support of the socialist state economy, and the main economic operations are geared to the needs of the government and the people through state planning and other economic measures. The exchange of products between state and collective economy and among the economic collectives must basically conform to the principle of equal exchange. Thus in its internal and external relations, the collective economy is a socialist economy which rules out the exploitation of man by man.

Ownership by the whole people is a more developed form of socialist public ownership. Here production is carried out by plan and is aimed at fulfilling the rising material and cultural requirements of society as a whole. At present, however, ownership by the whole people in China co-exists with collective ownership. The products of labour in the former economic sector, after deductions are made for whatever is consumed in production, are finally divided into two major categories: the accumulation fund and the consumption fund. The accumulation fund is handled by the state according to unified state plans and policies. The consumption fund, especially the part earmarked for individual consumption, is mainly distributed among the staff and workers of state enterprises. Members of the economic collectives, mostly the peasants, divide among themselves the income of their collectives and receive nothing from the individual consumption fund in the sector under ownership by the whole people. This results in differences in the pay for people working under the two systems of ownership. In this sense, the system of ownership by the whole people we have today is still incomplete. It cannot develop into a complete one until it becomes a unitary system covering the whole economy, ending the co-existence of the two systems, so that the country's consumption fund is distributed in a unified way among all working people and no differences arise from different systems of ownership.

Collective ownership is an immature form of socialist public ownership. The economic sector under collective ownership differs from the one under ownership by the whole people in that each economic collective is an independent owner. Each owns some means of production and the products of labour belong to its members. After deductions are made for whatever is consumed in production and for the fund of accumulation to be turned over to the state, the products are handled by the collective, which sets aside an accumulation fund for its own use and distributes the consumption fund within itself. The members of a collective have an equal right of ownership of its means of production, but different collectives are unequal in their possession of means of production. Differences in the quantity and quality of the means of production in the possession of the collectives, plus the differences in local natural and economic conditions, give rise to wide differences in labour productivity, output and the income from a given amount of labour. Since the collectives are responsible for their own profits and losses, the pay varies from one to another, and equal pay for equal work, which is basically practised among state enterprises, is inapplicable among the collectives. Differences in the funds accumulated by the collectives determine the differences in their capacity for extended reproduction. The economic sector under collective ownership bears quite a few birthmarks of the old society. We may say that it is an immature form of socialist public ownership, or public ownership at a low level.

The two systems of public ownership of the means of production account for the existence of two types of working people in socialist society: the working class and the peasantry. As industry is predominated by ownership by the whole people and agriculture by collective ownership, the working class and the peasantry are often regarded as typical of the working people in these two sectors.

The existence of the two systems of socialist public ownership in socialist society within a given period is, in the final

analysis, determined by the level of development of productive forces. In China, industrial production is basically mechanized and a number of industrial departments and factories are highly mechanized and are on the way to automation. However, agricultural production is still conducted mainly by manual labour and the use of draught animals, and mechanization has begun in only a few rural areas. Because of these different levels of productive forces, industrial production generally shows a relatively strong social character, as manifest in the complex division of labour and co-operation among various departments and enterprises. This gives rise to an objective need for society and the state to own the industrial means of production directly and exercise centralized, unified leadership over industrial production. In other words, it calls for a system of socialist ownership by the whole people. On the other hand, agricultural production shows a relatively weak social character, as a considerable portion of the products of a unit is consumed by itself and by its members. In such circumstances, collective ownership facilitates production and management and brings into play the socialist enthusiasm of the members of such a unit. It is a form of ownership that answers the need to develop productive forces in agriculture.

Owing to the differences between industry and agriculture with respect to the levels of productive forces and labour productivity, the differences between the workers and peasants in living standards cannot be eliminated within a short time. Differences in the conditions of material production and in labour productivity among collective economic units, coupled with the distribution of products within each collective, result in considerable differences in living standards among the peasants of different collectives. To effect distribution among the workers and peasants on a single basis of equal pay for equal work, the right thing to do is to bring up the income of the peasants gradually to the level of the workers' wages, rather than to resort to egalitarianism by lowering the workers' wages. Nor is egalitarianism the proper way to eliminate the differ-

ences in the incomes of peasants of different collectives, which should likewise be eliminated by raising the lower incomes and not by levelling off the higher ones. Peasants account for more than 80 per cent of China's population. It is obviously impossible to raise the living standard of the peasants all at once, especially of those in low-yield communes and brigades, to the level of the workers without a protracted effort to achieve a tremendous growth in industrial and agricultural production.

The major differences between the two systems of socialist public ownership, ownership by the whole people and collective ownership, naturally give rise to contradictions between them. These include the contradictions between the state and the collectives and those between the working class and the peasantry. For example, there are obvious contradictions between state and collective economy over such issues as taxation, the quantities of agricultural produce purchased by the state and the purchasing prices. If the agricultural tax levied by the state on the collectives is too heavy, it will reduce the funds accumulated by the collectives and may even affect the income of the peasants in these collectives. Excessive purchase and underpricing are also harmful to the interests of the collectives and the income of the peasants. The state must work out correct policies with regard to taxation, the purchase of agricultural produce and the pricing of industrial and agricultural goods, taking into consideration the interests of both the state and the collectives, so as to effect a rapid development of industrial and agricultural production and of the economy as a whole. Since the founding of New China, the agricultural tax has remained low, but there were years in which too much grain was purchased from the peasants, causing dissatisfaction among them. Today the "scissors" difference between industrial and agricultural prices is still much in favour of industry, and effective measures are being taken to change the situation. The contradictions between state and collective economy are those within the ranks of the people that are based on an iden-

tity of fundamental interests. If correct policies are adopted, these contradictions can certainly be handled in such a way as to benefit the consolidation and development of the socialist economic system.

2. SOCIALIST OWNERSHIP BY THE WHOLE PEOPLE AT THE PRESENT STAGE

At present, ownership by the whole people in China is not yet a unitary system of public ownership by the whole society as envisaged by Marx in his *Critique of the Gotha Programme,* but one that co-exists with socialist collective ownership. The figure of workers and staff members on state payroll comes to only 70 odd million while those drawing pay for their work from the collectives number 300 million. As stated earlier, a portion of the products turned out by enterprises under ownership by the whole people, mainly the accumulation fund, is distributed nationwide in a unified way, whereas another portion, mainly the consumption fund, is distributed among the workers and staff of the state enterprises and government institutions. The peasants in the collectives are not among the recipients in such distribution; they get only the products of their collectives. Thus these peasants enjoy only a partial and not a full right to the means of production in the enterprises under ownership by the whole people. Because of its limitations, therefore, the system of ownership by the whole people at the present stage is not a fully developed one. It will not be a fully developed one until it becomes a unitary system embracing the whole economy or, in other words, a public ownership by the whole society. It may also be said that the present ownership by the whole people in China is still a state ownership, and that is why we usually refer to the economic sector under this kind of ownership as the state economy.

An important question is the tripartite relationship in the economic sector under ownership by the whole people — the

relationship between the state, the enterprise and the workers. The means of production and products of the enterprises in this sector are the public property of the state representing the interests of the whole people and should, in principle, be managed by the state in a unified way. But the complexity of such an economy makes it impossible for the state to handle all of them directly. It can only leave the job to the several hundred thousand enterprises in the country. Thus each enterprise is a basic unit which handles such means of production and products. In principle, the workers of a state enterprise, including office and industrial workers, jointly appropriate its means of production and products. But in the absence of democratic management and measures which link its business performance directly with the financial interests of all its members, the workers and staff, who only receive their shares in the products on the principle of "to each according to his work", can hardly see the identity of interests between them and the enterprise, let alone that between them and the state. In these complicated circumstances, what kind of relationship should be established between the state, the enterprise and the workers? This is a question to be taken seriously in an analysis of the economic sector under ownership by the whole people.

A capitalist enterprise is the private property of a capitalist or a group of capitalists, who entrust its management to a manager or governing body they elect, e.g., a board of directors, an executive board, etc. The manager or governing body is accountable to the capitalist or the group of capitalists (the joint-stock company) owning the enterprise, and is delegated power by the latter to take care of their interests. He is not accountable to the state or to the workers and employees.

An enterprise under socialist ownership by the whole people is entirely different. As the means of production and the products of the enterprise are the public property of the whole people, the leader or the leading body of the enterprise is naturally accountable to the state, which represents the interests of the whole people, and must take care of state property, carry

out the production plans formulated by the state and conduct the distribution and exchange of products according to state assignments. At the same time, the leader or leading body is, to a certain extent, accountable to the workers of the enterprise and must take care of their interests and see to a steady improvement in their livelihood along with the growth in production. The socialist state carries out the principle of "to each according to his work" among the workers, who are concerned with their personal interests as well as the interests of the state. These two kinds of interests should in principle be identical, because increases in production and state revenue will eventually result in bigger incomes for the workers. However, such an identity of interests does not manifest itself in such a direct manner as in a collective enterprise, which is responsible for its own profits and losses, but in a roundabout way, and is not readily seen by the workers. If the leaders of the state and enterprises do not concern themselves with the livelihood of the workers and fail to improve it steadily as production grows, the workers will not concern themselves with the interests of the enterprises and the state, but treat them with the mentality of wage labourers. In such a situation, the superiority of socialism cannot be brought into play.

The managerial system in China's economy, borrowed from the Soviet Union in the 1950s, lays undue emphasis on centralized leadership by the state. The leader or the leading body of an enterprise is accountable for its performance only to the state but not to the workers of the enterprise. He is not elected by the workers but appointed by a higher state organ. The workers contribute labour and draw pay in accordance with state plans without a full right to the management of the enterprise or any extra benefit from its production increases. Such a relationship between the workers and their enterprise cannot fully embody the superiority of the socialist system. Although the Central Committee of the Chinese Communist Party has repeatedly called for broadening the workers' democratic rights and for their participation in management,

little has been achieved because no specific measures have been taken or the measures adopted are mere formalities.

Such a system of economic management deprives the workers and the enterprises of their right to handle their own affairs. All the economic operations of an enterprise are dictated by state plans. It has to depend on state allocations for investment, even for technical innovation funds, and must turn over all profits to the state. It has no direct contact with the market because all its products are purchased and marketed by state commercial departments, and the transfer of workers and staff members from one enterprise to another is up to the labour departments of the government. In other words, an enterprise has no control over human, material and financial resources or over the procurement of materials, production and marketing, and is hardly able to play its proper role as a basic unit of economic management. This makes it difficult for an enterprise to take the initiative in improving technology and management, raising labour productivity and thus increasing its contributions to the state and the people. It can hardly encourage the workers, from the angle of their financial interests, to increase production by achieving the maximum economic results with the minimum expenditure of labour and material resources, or raise their own standard of living by increasing the income of the enterprise. If such a system of management is allowed to develop along its own lines, it will be impossible to bring into play the superiority of socialism and, what is worse, economic development will be inferior to that under capitalism.

With the enterprises deprived of their right to autonomy and the workers of their democratic rights, bureaucracy thrives in leading organs and among leading cadres of the state and the enterprises, resulting in the arbitrary direction of affairs in disregard of objective economic laws and, consequently, inestimable losses to the state and the people. In such circumstances, the leading cadres of an enterprise and its workers and staff have no alternative but to follow the orders and

directives from the higher authorities. This dampens their initiative and creativeness, preventing them from giving play to their wisdom and bringing up ideas of improving business operations. Yet the superiority of the socialist system lies precisely in that the people throughout the country, as their own masters, are able to give wide scope to their wisdom and that the leading state organs, enterprises and working people can achieve their common aims through concerted efforts. Therefore, we must change this irrational system of economic management in a fundamental sense so that the leading state organs, the enterprises and the working people may jointly develop the superiority of the socialist system to a full extent by discharging their clearly defined duties.

For a long time, we regarded the economic sector under ownership by the whole people as a clock driven by a single spring mechanism, failing to see it as an organic body composed of many parts and cells. In this organic body, while the nerve centre functions as the command headquarters, every part, every cell, should have its own vitality and should be able to operate by itself. Whenever it is impaired, it should be capable of readjustment either by itself or jointly with other organs or cells without having to go through the nerve centre. If none of the cells could function independently, the whole body would cease to exist. The economic sector under ownership by the whole people will become a lifeless robot if we exercise too rigid a control over the economic operations of the enterprises instead of letting them readjust themselves by virtue of their own vitality. The economic fabric of society is far more complicated than the human body, and its sound development is impossible without the proper functioning of the enterprises, which are the basic components, and of the workers, who are the cells.

While some comrades are aware of the drawbacks of the existing system of management of the sector under ownership by the whole people, they doubt the superiority of such an economy as if it were inferior to the sector under collective

ownership, and question the superiority of the socialist system as if it were inferior to capitalism. This is completely wrong. The economic sector under ownership by the whole people represents the common interests of the people throughout the country, conforms to the needs arising from the development of modern industry which is of a strong social character, and is the leading force in the nation's economy. It cannot be substituted by the sector under collective ownership in any of these respects. Of course, collective ownership has its own advantages, which are obvious in partially self-sufficient agricultural production which depends mainly on manual labour and natural conditions. It is also preferable in some types of handicrafts, commerce and service trades, where it cannot be substituted by enterprises under ownership by the whole people. The socialist system guarantees the overall arrangement and rational use of the human, material and financial resources across the country. Given good management, it is capable of combining the interests of the state, the enterprise and the worker so as to bring the enthusiasm and creativeness of all three into full play. We failed to achieve this in the past because, lacking a sufficient understanding of the objective economic laws of socialism, we adopted a mechanical, dogmatic approach to the socialist economy and handled it in a way which prevented a full manifestation of its superiority. In the eight years after the founding of New China, we enabled the new-born socialist economy to triumph over the capitalist economy in the country by an overwhelming strength, compelled the capitalists to accept the socialist transformation of the system of ownership, and achieved a much higher rate of industrial and agricultural growth than in capitalist countries. Didn't all this prove the superiority of the socialist system? Owing to the mistakes in our planning and then the sabotage caused by Lin Biao and the Gang of Four during the Cultural Revolution, several ups and downs appeared in China's economy in the two subsequent decades, resulting in slow progress. The trouble didn't lie in the socialist

system, but in the mistakes in our work. So long as we grasp and act according to the objective economic laws of socialism, protect the enterprises' right to autonomy and the workers' democratic rights, correctly handle the relationship between the state, the enterprise and the worker and thus enhance the initiative of all three, the superiority of the socialist system will become fully manifest.

3. SOCIALIST COLLECTIVE OWNERSHIP AT THE PRESENT STAGE

Socialist collective ownership is a form of transition from individual ownership to ownership by the whole people. In China, this transition is effected in two steps: a change from individual ownership to collective ownership; and a change from collective ownership to ownership by the whole people. The two stages are interconnected but different in nature. The first step means a change from private ownership to public ownership, involving a change in the relations of production which must keep pace with the growth of productive forces. The second step means developing a lower form of socialist public ownership to a higher one, which requires, first of all, a tremendous growth of productive forces. China's peasants, who account for 80 per cent of her population, still live under a system of collective ownership which is predominant in agriculture, the foundation of the economy. The rural collectives, i.e., the people's communes, generally follow a three-level system of ownership of the means of production — ownership by the commune, by the production brigade and by the production team, with the last as the basic form. A production team, as a basic accounting unit, is usually composed of an average of 30-40 households and carries on production mainly by manual labour and the use of draught animals. Thus collective ownership in China today is only a lower form of socialist public ownership.

Collective ownership is necessary in China's agriculture because of the extremely low level of productive forces, the varying farming conditions and the wide gaps in labour productivity between different areas, communes, and production brigades and teams. The state can neither raise the pay in low-yielding teams to that in high-yielding ones nor reduce the latter. If it were to "take from those who have more and give to those who have less" as a means to even up the incomes, the high-yielding teams would be unwilling to strive for still higher yields while the low-yielding ones would not try to catch up. This would seriously hamper the growth of agricultural production.

An important reason for a far lower labour productivity in agriculture than in industry is that the former has to depend on natural conditions, and mechanization of agricultural production is more difficult than industrialization. The equipment for farm mechanization has to come from industry. Labour productivity in agriculture cannot rise significantly unless industry produces more, better and cheaper farm machinery. Industrialization started in capitalist countries as early as the latter part of the 18th century, made rapid progress in the early 20th century and reached the level of modernization soon afterwards. On the other hand, mechanization of agricultural production did not take place until the beginning of the 20th century. Its standards were gradually improved after the 1940s and became relatively high only after the Second World War. With a huge population, a small per capita amount of farmland, a low pay for work and highly-priced farm machinery, China faces far greater difficulties in mechanizing her agriculture than the U.S.A. and the West European countries did. Although initial progress has been achieved in farm mechanization in some areas in China, it has not led to a significant increase in agricultural labour productivity or in farm output. In particular, production costs of agricultural produce have gone up in many areas because of a greater input, creating a situation in which a higher output is not accompanied by

a higher income. Thus it is necessary to improve management and achieve better economic results in the course of farm mechanization, so as to ensure a quick rise in agricultural labour productivity and in output and income.

Agriculture lags far behind industry in the division of labour and co-operation. In fact, China's agriculture remains in a state of partial self-sufficiency, with roughly three-fourths of the grain, the main product, consumed by the peasants themselves. The peasants also produce much of their means of production, such as seed grain, fodder and organic manure, and breed some of the draught animals. The greater the extent of self-sufficiency, the smaller the scope for a unified management of production and distribution. This is also one of the reasons why the size of a collective economic unit cannot be very big at the present stage. But there will be a gradual change in the situation when the collectives are brought closer together through farm mechanization and the growth of industries run by communes and production brigades and teams.

At present, the economic sector under collective ownership exists as an objective need independent of man's will, and any premature attempt to abolish it goes against the objective laws of economic development. Compared with individual ownership, collective ownership represents a leap forward and it has actually promoted the growth of agricultural productive forces. Without the movements to establish agricultural producers' co-operatives and rural people's communes, it would have been impossible to level so much farmland, undertake large-scale capital construction in agriculture, including water conservancy projects, and achieve initial farm mechanization in some areas. Collectivization of agriculture has removed the scattered nature of agricultural production to some extent, which in turn has facilitated state planning and arrangement of agricultural production and state purchase of agricultural produce, consolidating the economic basis of socialism in China. However, compared with the economic sector under ownership by the whole people, agriculture under collective ownership is still rel-

atively scattered. Since collective economic units are responsible for their own profits and losses and, in principle, the state may issue plans on their production only as guidelines and not as binding instructions, they have a right to arrange their production according to local conditions and with some reference to state targets after they sell major agricultural products to the state by assigned quotas. The state is obliged to respect the collectives' right of ownership and their right to manage their own affairs. On the condition of completing its sales to the state, a collective may decide for itself what to produce and how to produce. Owing to the varying climatic and other natural conditions, the communes and production brigades and teams must develop such lines of production as are most beneficial to the state and to themselves. For a long time, some of our comrades were not clear about the distinctions between collective ownership and ownership by the whole people and applied to the economic sector under collective ownership methods appropriate only to the sector under ownership by the whole people. Showing no respect for the collective economic units' right of ownership and their right to manage their own affairs, these comrades issued to them binding instructions such as on the growing of crops, and forced them to obey confused orders. All this caused tremendous losses to agricultural production. Of course, the government organs at various levels should not give the people's communes a totally free rein, but should guide and co-ordinate production in various collectives in light of state plans and local conditions, taking into consideration both the needs of the state and the interests of the collectives. The same thing applies to the relationship between the people's communes and their subdivisions — the production brigades and teams. But the higher authorities must not adopt an authoritarian style of work. Instead, they should consult with the collectives on the co-ordination of their production plans and leave all the details of production and distribution to the latter.

Since the collectives are responsible for their own profits

and losses, they should be encouraged to engage in profitable side-line occupations, including the production of high-priced goods, so as to increase the income of their members and improve their livelihood and augment the funds for extended reproduction. In doing so, of course, they must not violate state policies and laws or go against state plans, which should nevertheless be highly flexible. If such production meets the needs of the state and the people, it should be protected and not restricted by the government. If not, it should not be banned by government orders. Instead, the collectives should be guided to change their lines of production by such economic means as price and tax policies. The collectives may also show certain capitalist tendencies, such as commercial speculation and profiteering in violation of government policies, laws and decrees. Such tendencies should be prevented mainly through sustained socialist education among the peasants and criticism of wrong ideas of business operation, and should not be banned by legal means except in serious cases. But they should not be used as an excuse for an indiscriminate prohibition of the legitimate economic undertakings of the collectives, in the same way as one should not give up eating for fear of choking.

The majority of the collectives in China are still unable to meet the many-sided needs of the peasants. The peasants should therefore be allowed to supplement their needs and increase their cash income by working the plots for their private use, raising cattle and poultry, gathering medicinal herbs, weaving straw products, etc. Even members of better-off collectives should be allowed to work their private plots in spare time with the assistance of their family members to produce for sale or for their own consumption. And it is all the more necessary to encourage the peasants to produce things badly needed by the non-farming population. Actually, some of the important food supplies to the cities, such as pork and eggs, come mostly from the peasants' side-line production. Of course, because of their habit as small producers, some peasants may become pre-occupied with their side occupations and reluctant to

take part in collective production. Thus it is essential to conduct regular socialist education among the peasants so that they will be more attached to the collective and maintain a socialist orientation. This should be accompanied by better control over the market and effective ways of combating the capitalist forces. But the struggle against the spontaneous forces of capitalism must be conducted along clear policy lines. On no account should we criticize as manifestations of capitalism the legitimate side occupations in the economic sector under collective ownership and the legitimate household side occupations of the peasants in the collectives. The fundamental way to eliminate the spontaneous forces of capitalism and the force of habit of the small producers is to develop agricultural production and expand the socialist collective economy so that the collectives will accumulate funds for extended reproduction and their members will have a full guarantee for their livelihood. Experience shows that the spontaneous forces of capitalism can hardly hold their own in communes, brigades and teams where the socialist collective economy is strong and the peasants enjoy a fairly high income. The Gang of Four slashed the side occupations undertaken by the people's communes, brigades and teams and by peasant households in the name of "cutting off the tails of capitalism", inflicting serious damages on the productive forces. The gang raised a hullabaloo about "going all out to work for socialism and fight capitalism". In areas under its domination, however, what it actually did was to revive capitalism, so much so that the collective economy eventually disintegrated and land was divided for a return to individual farming. This is ample proof that anyone who violates objective economic laws is bound to be punished by them.

Collective ownership is highly preferable in China's agriculture and quite favourable to the urban handicrafts and many service trades in the country. Even today it seems necessary to extend this system of ownership to some urban trades. Beginning in 1958, premature steps were taken to change many

handicraft producers' co-operatives to co-operative factories and to incorporate co-operative shops into state shops, resulting in a decrease in the variety of handicraft goods and inferior service in the service trades. This caused inconveniences to residents in the cities and took away job opportunities from young people there. This was a mistake. The year 1970 saw the rise of a great number of neighbourhood enterprises in cities. They grew and prospered speedily because, being responsible for their own profits and losses, they closely linked their interests with those of their members. In some cities, however, the better-run neighbourhood enterprises were placed under ownership by the whole people, and their members began to receive fixed wages just like workers on state farms, while all the profits were turned over to the state. The original advantages of these collective enterprises disappeared and the street neighbourhoods were in effect discouraged from setting up any more enterprises. In some cities it was stipulated that members of the neighbourhood enterprises under collective ownership should get lower pay and fewer benefits than the workers and staff of the enterprises under ownership by the whole people, which naturally hindered the development of these collective enterprises. To many of our comrades, it seemed that after the basic completion of the transformation of individual economy into collective economy, no more collective enterprises should be set up. They did not understand that since manual labour would continue to exist in China for a long time, collective economy would continue to show great advantages in the sphere of operation of manual labour and would remain a necessary supplement to the economy under ownership by the whole people. The view that collective ownership is inferior to ownership by the whole people in all circumstances doesn't agree with the law that the relations of production must correspond to the level of development of productive forces.

The gradual transition of collective ownership to ownership by the whole people is inevitable. How soon this will take

place depends primarily on the level of development of the productive forces in agriculture and also on the rise of the peasants' socialist consciousness. It should be pointed out that, in the final analysis, the level of the peasants' socialist consciousness also depends on the development of productive forces. If production makes slow progress and the peasants do not fare any better, socialist education is unlikely to be effective and it will be difficult to raise the peasants' socialist consciousness. The modernization of farming now underway in China, to be accompanied by a vigorous growth of industries in communes and their subdivisions, will usher in a rapid agricultural growth, a better life for the peasants and a rise in the peasants' socialist consciousness. 'From a long-term point of view, this development will create the material and moral conditions for a transition to ownership by the whole people.

In the country as a whole, agricultural production is based mainly on manual operation and the level of productive forces is extremely low. The mechanization and modernization of agriculture cannot be accomplished in a short time merely with the funds accumulated in agricultural production. Therefore, as far as most areas in China are concerned, the system of a "three-level ownership with the production team as the basic unit" in the people's communes is basically in harmony with the level of productive forces at the present stage. Our task is to consolidate this system and maintain its stability for a certain period of time. Meanwhile, we should expand the socialist collective economy at the levels of the commune and the production brigade to create conditions for raising the level of public ownership in the communes.

Since the Northern China Agricultural Conference in 1970, people's communes and production brigades have done much to expand their industries. By now the overwhelming majority of people's communes and production brigades throughout the country have set up their own industrial and other enterprises with a labour force accounting for about 9 per cent of the total manpower in the people's communes. By running these enter-

prises the communes and their subdivisions have accumulated more funds, a considerable portion of which is being spent on farmland capital construction and on farm machines while another portion goes to poorer brigades and teams as financial assistance. Where these enterprises grow fast, agricultural production grows fast too and the commune members receive a higher income. Workers in the commune and brigade enterprises, except for a very limited number of technicians and highly skilled workers, receive roughly the same pay as other commune members. Therefore, such enterprises are still part of the economy under collective ownership. A smaller portion of the profits of these enterprises is turned over to the state as tax, another portion is set aside to finance agricultural production, while the bulk is used for extended reproduction in the enterprises. The use of any part of the profits for the establishment of a new enterprise has to be approved by the higher authorities in order to guide the investment along proper lines and avoid any blind development out of keeping with state requirements.

The all-round development of agriculture, forestry, animal husbandry, side occupations and fishery and the growth of commune and brigade industries will be accompanied by a change in the economic structure of the rural people's communes. They will go beyond agriculture to engage in industry and commerce. This will call for closer co-operation between communes and brigades and teams and between state and collective economy, which means an economic structure similar to the agricultural-industrial combines in some other socialist countries.

The development in the economic sector under collective ownership in China is quite uneven. In some areas, initial farm mechanization has been achieved and commune and brigade industries have been developed extensively. According to 1978 statistics, the total industrial output value of the people's communes across the country exceeded 38,000 million yuan, accounting for 20 per cent of the total industrial and agricultural

output value of the people's communes, or close to 9 per cent of the national industrial output value. In a number of areas where such industries have developed fast, the output value has approached or even exceeded the agricultural output value. In Wuxi County, Jiangsu Province, the output value of commune and brigade industries accounted for over 60 per cent of the county's total industrial and agricultural output value. Meanwhile, the economy at the commune and brigade levels has gradually expanded to take up an increasing percentage in the three-level economy. The income of the communes and brigades made up 32 per cent of the total, while that of the production teams accounted for 68 per cent. These changes, plus the corresponding rise in the peasants' living standards, indicate the orientation of the rural people's communes in China.

A change in the system of ownership is a fundamental change in the socialist relations of production and has an important bearing on the development of agricultural production. By now, more than 60,000 production brigades have already become basic accounting units under the system of three-level ownership. Most of them are run well, and many have been cited as examples of making fast progress in both agricultural and industrial production. However, in the absence of necessary material conditions, quite a number of them changed over to their present status as basic accounting units on orders from above regardless of the wishes of the members. The results were generally bad and serious damages have been caused to agricultural production. Therefore, any such transition has to be handled prudently. In the past decades we have suffered quite a few reverses by introducing too many abrupt changes in the system of ownership. We must make up our minds to maintain for quite some time the stability of the three-level system of ownership with the production team as the basic accounting unit. Only a small number of production brigades, where the conditions are ripe, may be allowed to become basic accounting units. But the decision has to be made on the

merit of the case, with the consent of the masses and the approval of the higher authorities, and on the condition that the transition will really benefit the development of productive forces. In sparsely populated areas, in areas with a scattered population, especially in secluded mountainous areas, the size of the collective economic units should be smaller to avoid difficulties in management. In short, in view of the uneven development of farm production in China, the system of management should vary with local conditions instead of following a single pattern.

Chapter IV

THE DISTRIBUTION SYSTEM UNDER SOCIALISM: "TO EACH ACCORDING TO HIS WORK"

1. LABOUR IN A SOCIALIST SOCIETY

Socialist public ownership of the means of production is the foundation of the socialist relations of production. However, an analysis of public ownership alone does not provide a thorough explanation of the characteristics of such relations. To clarify these characteristics, it is necessary to examine the manner in which labourers and the means of production are united under the socialist system.

Marx holds that, whatever the social form of production, labourers and the means of production always remain factors of it. He says, "For production to go on at all they [labourers and the means of production] must unite. The specific manner in which this union is accomplished distinguishes the different economic epochs of the structure of society from one another."[1] The three systems of class exploitation known to history differ from one another not only in the ownership of means of production but, more importantly, in the manner in which the labourers and the means of production are united. In his *Dialectical and Historical Materialism,* Stalin points out that the basis of the relations of production under the slave system is full ownership by the slave owner of the means of production as well as the worker in production, the slave; the basis of the relations of production under the feudal system is full

[1] Karl Marx, *Capital,* Foreign Languages Publishing House, Moscow, 1957, Vol. II, p. 34.

ownership by the feudal lord of the means of production and his partial ownership of the worker in production, the serf; the basis of the relations of production under the capitalist system is ownership by the capitalist of the means of production, but not of the worker in production. Marx says, "The capitalist mode of production . . . rests on the fact that the material conditions of production are in the hands of non-workers in the form of property in capital and land, while the masses are only owners of the personal conditions of production, of labour power."[1] What distinguishes the capitalist relations of production from those under slavery and feudalism is, first and foremost, the complete freedom of the labourer from personal bondage. Although he doesn't possess any means of production, he enjoys freedom of the person, freedom to sell his labour power. A capitalist is an owner of the means of production and is in a position to buy labour power as a commodity and unite it with the means of production for the production of surplus value.

Under the socialist system, the means of production are the public property of the whole society or that of a collective, i.e., property owned jointly by a group of working people. The labourers are the owners of the means of production and are no longer separated from them. Unlike labourers in a capitalist society who sell their labour power, they jointly own, manage and use the means of production and engage in production together. Society requires that all its able-bodied members contribute their work ability to it or to their collectives, and assigns them jobs commensurate with their abilities. In this sense, the socialist system unites labourers with the means of production in a manner similar to the communist mode of production.

However, socialist society is one that has just emerged from the womb of capitalist society. It is not yet free from the tradi-

[1] Karl Marx, *Critique of the Gotha Programme*, Foreign Languages Press, Beijing, 1976, p. 18.

tions or birthmarks of capitalism. In capitalist society the labourers are wage workers who sell their labour power to, and are exploited by, the capitalists. The conversion of the means of production into public property under socialism cannot immediately eliminate the labourer's possession of his own labour power. A labourer continues to regard labour as a means of earning a living and cannot possibly work for society without consideration of salary. If he is to work for society irrespective of compensation, society must provide him and his dependents with all the necessary means of subsistence free of charge. In other words, society must bear all the costs of the reproduction of labour power. Obviously, this is something beyond the capability of a newborn socialist society in which the productive forces are not yet fully developed or, in the words of Marx, there is not yet an abundant flow from "the springs of co-operative wealth". Since society is still unable to provide its members with a free supply of all necessary means of subsistence, it can only pay each labourer on the basis of the quantity and quality of labour he performs, leaving it to him to work out his family budget. Besides, the division between mental and physical labour continues to exist in a socialist society, while the needs of highly-educated mental workers in their work and daily life call for special attention. All this indicates that labour power remains partly a personal possession of the labourer. Marx says in his *Critique of the Gotha Programme* that socialist society tacitly recognizes the unequal productive capacity of the worker as a "natural privilege". This means a tacit recognition of the worker's ability as a personal possession.

At the stage of socialism, therefore, the means of production and labour power are united in a manner different from that in a capitalist society or in the higher phase of communism. On the one hand, the working people have become joint owners of the means of production and the relationship between the labourer and society becomes one of the individual and the col-

lective owning the same means of production. In other words, there is no longer a relationship between two different owners of two different things. On the other hand, since society has to tacitly recognize unequal productive capacities as natural privileges of individuals, which presupposes the exchange of an equal amount of work for an equal amount of products between society and the individual labourer, society and the individual worker remain, in this sense, different owners. In such circumstances, the means of production are united with labour power in a unique manner: while all the working people form a productive community by the use of jointly-owned means of production, each person receives pay on the basis of the quantity and quality of his labour.

It is not surprising that the personal possession of labour power, a birthmark of the old society, should partially remain after the means of production become public property. Lenin says, ". . . remnants of the old surviving in the new confront us in life at every step, both in nature and in society."[1] Engels says that in the course of development of a thing, ". . . all differences become merged in intermediate steps and all opposites pass into one another through intermediate links."[2] The partial possession of labour power by the individual is precisely the "intermediate link" between capitalism and mature communism. It indicates that the communist manner of uniting the labourer with the means of production remains immature and imperfect at the socialist stage. The conversion of individual labour into social labour has to be effected through a "medium", a unique form, and that is the exchange of an equal amount of work for an equal amount of products after the deductions for common funds. This is an important hallmark distinguishing socialism from communism as well as a manifestation of the transitional nature of the socialist system.

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[1] V. I. Lenin, *The State and Revolution*, FLP, Beijing, 1976, p. 120.

[2] Frederick Engels, *Dialectics of Nature*, FLPH, Moscow, 1954, p. 282.

Public ownership of the means of production and partial possession of labour power by the individual constitute a contradiction which gives socialist labour a dual nature. On the one hand, because the labourer is one of the joint owners of the means of production, his labour takes on a direct social character. On the other hand, because labour power still belongs partially to him as an individual, his labour remains a personal means of livelihood. This dual nature of socialist labour is discernible everywhere in our life. It manifests itself in all socialist economic processes — production, exchange, distribution and consumption — and is reflected in the mind of the labourer.

The most striking expression of the dual nature of socialist labour, however, is the distribution of products. Under the socialist system, social products are already the public property of society or of the collectives and are distributed by society. Some of these are reserved for the common needs of society, while the rest are distributed among the individual labourers on the basis of the quantity and quality of their labour for their daily needs and those of their families, giving rise to the individual ownership of the means of subsistence. Labour in the first category is performed by the labourer for society, while labour in the second category is performed by him for himself. The division between labour performed for society and that performed for the labourer is an expression of the dual nature of socialist labour in the field of distribution. This dual nature will disappear in the higher phase of communism, at which point society will bear all the costs for the reproduction of labour power and the living expenses of every member of society. The larbourer will no longer work for his pay, and labour will cease to be a personal means of livelihood. Of course, even then a part of social products will still have to be distributed among the labourers for their personal use, but such distribution will be disassociated from the measure of labour and will no longer be an exchange of an equal amount

of work for an equal amount of products. As a remnant of the old society, the possession of labour power by the individual will disappear completely, and so will the nature of labour as a personal means of livelihood.

It will take a long time for the dual nature of socialist labour to fade out. While the development of the socialist mode of production may allow for relatively quick changes in material conditions of production, the task to change the human conditions of production, i.e., the conditions of human labour, will be more arduous and time-consuming. Production must be expanded to cover all the needs of labourers and their families; education must be developed to eliminate the division between mental and manual labour; working hours should be shorter and labour less intensive so that labour will become a want of any healthy person. The dual nature of socialist labour is by no means immutable throughout the socialist stage. The steady development of material production and the corresponding changes in people's intellect and morality will weaken the dual nature of socialist labour. The change will not take place overnight. There will have to be an accumulation of quantitative changes and a number of partial qualitative changes before a complete qualitative change comes about.

For a long time, our study of the socialist economic system suffered from a failure to examine it by the characteristic manner in which the labourer and the means of production are united. After much consideration, I have come to the conclusion that when we look at the differences in nature between socialism and the higher phase of communism, we should get to the bottom of the question and should never be satisfied with an analysis of the differences between the forms of distribution in these two phases of communism, i.e., "to each according to his work" and "to each according to his needs". In the *Critique of the Gotha Programme,* Marx says, "The prevailing distribution of the means of consumption is only a consequence of the distribution of the conditions of production them-

selves; the latter distribution, however, is a feature of the mode of production itself."[1] The "conditions of production" he speaks of here refers not only to the material conditions of production, that is, the means of production, but also to the human conditions of production, i.e., those of labour power. The capitalist mode of production is based on ownership of the material conditions of production by non-labourers and possession of the human conditions of production by labourers. We should also analyse the socialist relations of production from such an angle. In the past, many economic theoreticians brushed aside the question of the human conditions of production, i.e., the possession of labour power by the individual, as if such a possession would disappear altogether with the change in the ownership of the means of production. Some people even denied that the question of who possessed labour power existed. This line of thinking led to a confusion between the different socio-economic formations in history and the nature of the lower phase of communism with that of the higher phase. In my opinion, this prevents a more thorough examination of the question of "to each according to his work".

Some comrades maintain that if we recognize the partial possession of labour power by the individual, we must at the same time recognize labour power as a commodity. This is incorrect. The former doesn't necessarily mean the latter. In the concluding phase of feudal society, urban craftsmen possessed labour power, but because they owned their means of production, their labour power did not become a commodity. Labour power becomes a commodity only in a capitalist society where the labourer, deprived of his means of production, is compelled to sell his labour power. In a socialist society, the means of production are jointly owned by the labourers, obviating any need for labour power to become a commodity.

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[1] *Critique of the Gotha Programme, op. cit.*, p. 18.

2. "TO EACH ACCORDING TO HIS WORK" — AN OBJECTIVE NECESSITY

Private ownership of the means of production is abolished under socialism, and so is exploitation of those who possess only labour power and not the means of production by those who own the means of production. However, unequal productive capacities still have to be tacitly recognized as the natural privileges of individuals and labour as a means of livelihood. Hence the principle of "to each according to his work".

In China, the system of "to each according to his work" was gradually established during the development of the socialist economy following the proletarian seizure of power. Several systems of ownership of the means of production were in existence immediately after the founding of New China. The capitalist system of distribution had to continue in capitalist enterprises, where the surplus value created by the surplus labour of the labourers were given gratis to capitalists as profit, while the value created by their necessary labour was converted into wages. In appearance wages were paid according to productive capacity, but in essence they were the value or price of labour power. The wage system in China's capitalist enterprises was extremely irrational. The managerial personnel running the factories on behalf of the capitalists and the engineering staff were paid high salaries while the labourers doing heavy manual work received a meagre pay. In the socialist state enterprises, the "labour contract system", the "indentured labour system" and other forms of feudal exploitation were abolished while the old wage system was kept intact. As production developed, wages of manual labourers were steadily raised, bridging irrational gaps. The First Five-Year Plan initiated in 1953 included a new eight-grade wage system based on the principle of "to each according to his work" as well as a post-rank salary system for government and managerial personnel who are paid according to their ranks and

posts. In the interest of greater unity with managerial personnel from pre-liberation days, the government did not subject them to the new pay scale, but paid them "retained salaries" which were relatively close to their pre-liberation income and higher than the regular sums for their ranks and posts. Such salaries were not entirely based on the principle of "to each according to his work" but were partially paid as redemption to the bourgeoisie.

Until 1953, the supply system in use during the revolutionary wars remained so among cadres from the Liberated Areas. During the war years, material hardships made it impossible for the overwhelming majority of cadres to bring their dependents along, and the governments in the Liberated Areas guaranteed only a minimum supply of daily necessities with insignificant differences in rations for cadres at different levels. The supply system played an important role in uniting officers and men, the army and the civilians, in the joint endeavour to win the revolutionary wars. Victory brought the cadres back to the cities to rejoin their families, with major changes in their everyday life and work. The supply system gave way to a salary system in 1953.

Marxists hold that in a communist society, consumer goods will be distributed according to need in the interest of a wholesome development of body and mind in all members of society. In the socialist period, however, means of personal consumption can only be distributed on the principle of "to each according to his work". Lenin says, "From capitalism mankind can pass directly only to socialism, i.e., to the social ownership of the means of production and the distribution of products according to the amount of work performed by each individual."[1] Mao Zedong also points out that "even under socialism there can be no absolute equality, for material things will then be distributed on the principle of 'from each accord-

[1] V. I. Lenin, "The Tasks of the Proletariat in Our Revolution", *Collected Works*, Progress Publishers, Moscow, 1964, Vol. 24, pp. 84-85.

ing to his ability, to each according to his work' as well as on that of meeting the needs of the work."[1]

Practising the system of "to each according to his work" in a socialist society means recognition of the material interests of the individual, a principle which provides for unequal pay for labourers with unequal productive capacities and unequal labour contributions. At this stage, it is essential to provide the working people material as well as moral incentives. The greater one's ability and contribution, the greater one's pay. In this way, the interests of the individual and those of the collectives (the enterprise, the commune or one of its subdivisions) and the state merge in a way to foster enthusiasm among the working people and stimulate the development of productive forces. The present differences in pay will not exist indefinitely. Recognition of these differences is a means of achieving a high-speed growth of productive forces, which will make it possible to narrow them down and eliminate them altogether. Equalitarianism, meaning setting salaries regardless of quantity and quality of work, would dampen people's enthusiasm and hinder the development of productive forces, making it difficult to implement the gradual transition to the practice of "to each according to his needs".

In the socialist period, it is still impossible to resolve the contradiction between public ownership of the means of production and partial possession of labour power by the individual. For this reason, it is impossible to abolish the system of "to each according to his work" as a form of distribution of consumer goods among individuals, something determined by the distribution of production conditions. It should be fully recognized that, for the present, the principle of "to each according to his work" marks a big step forward and is highly useful. This principle also has certain limitations. Affirming its historical inevitability, both Marx and Lenin point to its

[1] Mao Zedong, "On Correcting Mistaken Ideas in the Party", *Selected Works*, FLP, Beijing, 1975, Vol. I, p. 111.

"defects" which are nevertheless unavoidable in the lower phase of communism. They note that the principle means both equality and inequality because, firstly, ability, and therefore, pay, varies from individual to individual, and secondly, the number of one's dependents, and therefore, the standard of living, varies from family to family. Since this inequality plays a positive role in the development of productive forces at present, we must defend the principle which gives rise to such inequality, i.e., "to each according to his work". As productive forces develop, the pay scale should be steadily raised with emphasis on the lower income brackets, and social benefits should be expanded as much as possible to achieve the final aim of a good life for all.

Both Marx and Lenin point out that the principle of "to each according to his work" lies within the narrow confines of "bourgeois right". Placing undue emphasis on material incentives to the point of neglecting politico-ideological education may cause some people to adopt an incorrect attitude towards the relationship between the state, the collective and the individuals, and the relationship between long-term and immediate interests, ultimately encouraging bourgeois individualism. Adherence to the principle of "to each according to his work" should be coupled with regular socialist education among the working people and advocacy of a communist attitude towards labour so that people will see the need to subordinate their personal interests to those of the collective and immediate to long-term interests. Material incentives and politico-ideological education must supplement each other. Grasping one while abandoning the other will do harm to socialist construction.

For at least a decade, the system based on "to each according to his work" was seriously undermined, causing tremendous losses to industrial and agricultural production and preventing improvement in the people's livelihood. Major efforts will have to be made in the forthcoming years to rehabilitate, consolidate and perfect such a system of distribution. The

fallacious notions spread by Lin Biao and the Gang of Four to distort and discredit this system should be thoroughly criticized and its tremendous impetus to the development of productive forces fully explained. In theoretical studies, however, a balanced approach should be adopted towards the historical role of this system for it would be inaccurate to say that it is flawless.

3. WAGES IN ENTERPRISES OWNED BY THE WHOLE PEOPLE

The principle of "to each according to his work" has to be realized in a practical way. Given a widespread commodity-money relationship, the monetary wage system is the handiest one for the workers and staff in enterprises under ownership by the whole people. The state converts labour provided by them in a given period of time, usually a month, into wages, with which they buy consumer goods or pay services.

Wages in a socialist society are different in nature from those in a capitalist society. Under capitalism, wages are the transformation of the value or price of labour power. On the surface, it seems a worker receives a sum equivalent to the amount of labour he provides. In actual fact, the value contained in his wages is only part of the value he creates, while the rest is appropriated by the capitalist as surplus value, none of which is returned to the labourer. Therefore, such wages define the relationship between the capitalist and the worker as one between the exploiter and the exploited.

Under socialism, labour power ceases to be a commodity as soon as the means of production are placed under public ownership. A part of the value created by the labourer is used to meet the common needs of society — as expenditures for economic construction, administration, defence, and cultural, educational and medical developments — while the other part is set aside as funds for individual consumption and is dis-

tributed among labourers according to the quantity and quality of work they provide. In the final analysis both parts are used to serve the interests of the working people — the former to further their collective and long-term interests and the latter to realize their personal, immediate interests. Thus socialist wages show the identity of fundamental interests between the state and the labourer based on the public ownership of the means of production.

Wages become an important and complex question under socialism because of its direct bearing on the material distribution among individual labourers, including mental workers, within the working class, and on the relations between the working class and the peasants within collectives. Just as distribution affects production, so the level of wages, their forms and the ratios between wages for various sections of labourers have much to do with the enthusiasm of the labourers and a correct handling of contradictions among the people. A correct wage policy requires a continuous investigation into this. Here are some important principles a socialist country usually has to take into consideration while formulating a wage policy:

1. The wage system must follow the principle of "to each according to his work", that is, the principle of more pay for more work and less pay for less work, avoiding both wide discrepancies in wages and none at all. The wage system left over from old China showed wide gaps between the salaries of higher white-collar workers, particularly higher civil servants and business personnel, and the wages of blue-collar workers. Such unjustifiable differences have gradually been lessened through reforms and readjustments of the wage system. For more than two decades our principle has been one of "no raises for the upper income brackets, fewer raises for the medium income brackets and more raises for the lower income brackets".

In the past decade and more, equalitarianism has become the major tendency in our handling of wages, which needs

correction. Equalitarian ideas in China have a broad social base and deep historical roots. Old China was predominantly a country of small producers who circulated the motto: "if there is food, let everyone share it." This expression of petty-bourgeois equalitarianism or agrarian socialism has often interfered with our work. As mentioned earlier, a supply system was practised during the revolutionary wars. It played an excellent role in those periods and left a deep impression on cadres. In 1958 some people began recommending the restoration of this system among the cadres. For a while free meals were provided in the countryside, resulting in much waste and confusion. As an economically backward country in the process of modernization, China could not but adopt a low pay scale which, coupled with a failure to effect pay raises for years, made life difficult for many middle-aged workers and staff members. In these circumstances, whenever pay raises are considered or bonuses granted, priority is often given to the most hard-pressed ones, making it difficult to abide by the principle of "to each according to his work". Elimination of the equalitarianism prevalent among both cadres and the masses will be difficult, but it should be attempted patiently. Its continued influence prevents both the principle of "to each according to his work" and the modernization drive from being effectively carried out.

2. The income of the workers and staff should be gradually increased in co-ordination with rises in production and labour productivity. Wages in the lower brackets were raised by 30-60 per cent during the three-year period of economic rehabilitation (1949-52), and the average pay of workers and staff rose by some 30 per cent during the First Five-Year Plan period (1953-57). Evidence pointed to the superiority of the socialist system. However, due to errors in our work, wages increased very slowly in the ensuing years and did not rise at all in the ten tumultuous years of the Cultural Revolution (1966-76). As a result, the average was essentially at the same level as that two decades ago. This affected the enthusiasm of the workers

and staff. After the collapse of the Gang of Four, the Party Central Committee introduced some wage increases. In the past two years, 60 per cent of the workers and staff in the country have benefited from these increases. We should see to it that, on the basis of higher output and labour productivity, there will be raises every year, resulting in at least one raise for everyone every few years. Salary increases should be based on a rising labour productivity. Years of economic damages meant a slow rise or even a drop in labour productivity. It must be raised in the course of modernization to provide a basis for pay increases.

3. The relations between workers and peasants must be improved upon and the historical gaps between their living standards should be narrowed gradually on the basis of better production. Due to the backwardness of agricultural production, the income of peasants is even more meagre than the generally low scale for workers. If this difference remains too long, it will be harmful to a further consolidation of the worker-peasant alliance. We must gradually narrow the gap by developing industrial and especially agricultural production and by effecting a marked improvement in the living standards of the people across the country. Generally speaking, the growth of labour productivity is relatively fast in industry but quite slow in agriculture. In formulating its wage policy and introducing wage increases, the state should make plans and arrangements that take into account not only the workers who number a few tens of millions but also the peasants who number several hundred million. The income of the peasants should be increased by stepping up industrial support for agriculture, accelerating agricultural development and raising the purchasing prices of farm produce. Meanwhile, the income of workers in the intermediate areas between town and country should be adjusted properly to avoid widening the gap between workers and peasants.

4. The system of distribution according to work should be coupled with the establishment of better collective welfare

facilities that will lighten the burden of household chores for workers and staff. At the present level of distribution in China, the working people operate within a tight budget. All governmental institutions and enterprises should run good public dining halls, living quarters, nurseries, clinics and other welfare facilities to ensure a worry-free devotion to work. In spite of the backwardness of her production, China has instituted free medical care, old-age pension and other labour insurance systems speaking for the superiority of the socialist system.

In a socialist society, the family generally ceases to be a production unit but remains a consumption unit. Each labourer arranges his family budget on the basis of his income. Before social products become so bountiful as to make possible the application of the principle of "from each according to his ability; to each according to his needs", each family will have to operate on its own budget. This system requires the working people to lead a frugal life and takes care of family members who cannot work, particularly children. Thus it still has a highly important role to play as a guarantee of the people's livelihood. But it also gives rise to a contradiction between social collective labour and the household chores of the individual, compelling many working people, especially women, to spend much time on the latter. When the higher phase of communism is attained, all needs in everyday life will be supplied by the collective means of society. Children will be raised and educated by society, and the family will be relieved of these economic functions. Only then will there be no more contradiction between social collective labour and the household work of the individual.

The forms of wages to be adopted under socialism is also a very important question. These forms include time wages and piece wages, supplemented by bonuses and job subsidies (such as those for field work, underground work, work under high temperatures, or exposure to hazardous conditions). Time

wages, piece wages and bonuses may each take various forms. Whatever forms are adopted, they should be conducive to the implementation of the principle of "to each according to his work", to raising the socialist enthusiasm of the workers and staff members, and to their unity. This should be our point of departure.

New China has always used time wages as the main form and occasionally supplemented them with piece wages. The two, which differ only in minor respects, are adopted according to conditions in each trade. Piece wages may be based on the output of an individual or a group of workers. As mechanization and automation advances, it will be increasingly difficult to set quotas for the individual. Piece wages for the individual will become applicable in ever fewer cases and may be changed to those for a team in some cases. But we can leave that to the future. For the present, it is still necessary to introduce piece wages for the individual on a wider scale. Any denial of their usefulness would be incorrect.

Bonuses are likewise a necessary means to encourage the working people to do more for socialist construction. In particular, they are a necessary supplement to time wages. After the victory of the October Revolution, Lenin proposed to introduce bonuses on many occasions, pointing out that "bonuses would be impermissible under a full communist system but in the period of transition from capitalism to communism bonuses are indispensable, as is borne out by theory and by a year's experience of Soviet power."[1] The Gang of Four called piece wages and bonuses revisionist practices and abolished them, dampening the labour enthusiasm of the staff and workers. Their mistakes should be criticised so that the ultra-Left practices on the wage question may be corrected as soon as possible.

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[1] V. I. Lenin, "Draft Programme of the R.C.P. (B.)", *Collected Works*, Progress Publishers, Moscow, 1965, Vol. 29, p. 114.

4. THE REFORM OF THE CURRENT WAGE SYSTEM

As their means of production belong to the whole people, the socialist state-owned enterprises should generally follow a unified wage scale on the principle of equal pay for equal work. But the situation is complicated by many factors.

First of all, from the very outset, wages in these enterprises varied considerably from area to area and from trade to trade. Elimination of such variances is difficult as long as the two systems of socialist public ownership exist. The wages in small towns are much lower than those in big cities. When the government announced the national wage scales in 1953, it divided the country into ten zones, each separated by a 3 per cent difference in pay. Small towns generally belonged to the first or second zone, where the pay was the lowest, and were later upgraded to the third or fourth zone. The large cities were placed in the sixth to eighth zones, while some border areas were rated as the ninth or tenth zone. The classification was based mainly on the differences in the prices of food grain and non-staple foods which made up, as they do now, a large percentage of the means of subsistence of the workers and staff in China. Being close to rural areas, people in small towns could get their food at fairly low prices. In the past three decades, the gaps between the prices of food and other goods in different areas have narrowed, and the original classification of wage zones no longer corresponds to the price levels, making necessary a gradual transference of the zones in the lowest pay brackets. However, one thing has to be taken into consideration in such a readjustment, namely, that the small towns lie between the cities and the countryside, and a rise in workers' wages in these intermediate areas means wider differences between the workers' and peasants' living standards. Therefore, while it appears necessary to bring closer the incomes of workers in various wage zones, care must also be taken to avoid increasing the income gap between them and the peasants. Considering both points, we come to the con-

clusion that the differences in workers' wages between big and small towns cannot be eliminated completely before a significant rise in the living standards of the peasants is achieved.

In the past decade and more, new industrial enterprises have burgeoned in small towns with a peasant labour force because of the state policy to restrict the growth of the total number of workers and staff members on its payroll. The workers and staff manning these enterprises are dispatched by communes, production brigades and production teams, which provide them with food grain and a cash subsidy. They turn over their wages, minus the subsidy, to their production teams in return for workpoints and receive their pay at the year's end in terms of the unitary value of the workpoints like the other peasants. The workers and staff of peasant origin account for at least half of the total in the local industries in many small towns, including those managed by the town authorities. As for the industries run by communes and their subdivisions, the overwhelming majority of the workers and staff here belong to this category, and only a small number of technicians draw regular wages. This system of work and pay, characterized by people's dual status as workers and peasants, helps resolve the contradiction between workers and peasants. However, it creates a contradiction between the regular workers and staff members drawing industrial wages and the peasant workers earning workpoints and among the peasant workers themselves. The salary of peasant workers may vary according to the financial condition of their production teams — something which is at odds with the principle of "to each according to his work". All this means considerable difficulties lying in the way of a strict application of the principle of equal pay for equal work among the workers and staff in different zones. The complicated situation in the country has to be taken into account in any reform of the wage system or reclassification of the wage zones if the income gap between workers and peasants is to be kept within a certain limit.

Secondly, wages vary from one trade to another in the same

area. They are generally higher in industry than in commerce, which includes food, beverage and other service trades, in heavy industry than in light industry, and in light industry than in the handicrafts. The pay in many co-operative factories, which have been converted from handicraft co-ops, is generally lower than that in local (prefectural and county) industries, which again is lower than that in the enterprises under the central and provincial authorities. It is only to be expected that, in factories provided with imported advanced equipment and technology and in those where labour productivity rises sharply through the adoption of sophisticated technology developed at home, the wages will have to be higher because a much higher technical level and a much stricter labour discipline will be demanded of the workers. This shows that the application of a unitary pay scale is difficult even among state-owned enterprises. With her large population, China cannot solve the employment problem unless she undertakes a simultaneous development of enterprises of all sizes and of mechanized, semi-mechanized and handicraft production. It is actually impossible to apply unitary wage rates to the whole complexity of state-owned enterprises. In spite of this, we have tried to strictly implement the principle of equal pay for equal work or "the exchange of an equal amount of labour for an equal amount of products", but have never been successful. On the contrary, the transfer of personnel between areas and trades has resulted in dozens of wage rates within a single enterprise because the government does not permit income adjustments for those transferred from a higher wage trade or zone to a lower one. In addition, a whole range of subsidies have been introduced in many localities and trades over and above regular wages because the unified pay scale doesn't solve their problems. All this creates a kaleidoscopic picture of wage rates in the enterprises, which nevertheless are powerless to make readjustments. In these circumstances, how can the principle of "to each according to his work" be put into practice within any such enterprise?

A more serious drawback of the present wage system lies in the fact that all state enterprises follow the same pay scales irrespective of the fulfilment of their production quotas or their contributions to the nation. This is another form of equalitarianism that is just as harmful to socialist economic development as equal treatment for all irrespective of quantity and quality of work. The principle of distribution under socialism should take into account both the contributions a worker makes to his enterprise and the contributions an enterprise makes to the state. This is the only way to encourage a worker to do more for his enterprise and to encourage an enterprise to do more for the state. The workers and staff of an enterprise which makes outstanding contributions to the state should receive more pay, bonuses and benefits. Only thus can the interests of the state, the enterprise and the worker be combined properly. The equalitarian tendency to disregard the performances of the workers and staff has long since been criticized and improvements have been made as the result of a re-introduction of piece wages and bonuses, and the effort should be kept up in the coming readjustments of wages. Yet the equalitarian tendency to disregard the performances of enterprises has only just become a subject of discussion, and measures are being adopted to overcome it step by step. Some comrades used to take the view that an unequal distribution of pay to the workers and staff in different enterprises contradicted the socialist principle of "to each according to his work" or "the exchange of an equal amount of labour for an equal amount of products". Such a view is at loggerheads with the effort to encourage the enterprises to speed up socialist modernization through effective mangement and technical innovation.

In view of the above, serious studies are needed to see whether a socialist country should have a unitary system of wage rates and, if so, how it should be put into practice. In principle, the question should be answered in the affirmative because it is necessary to fix a correct ratio between accumula-

tion and consumption, to handle properly the relationship between the working class and the peasantry, and to adjust and readjust the relationships between different zones and trades. But fairly flexible methods should be adopted to put the unitary rates into effect in specific areas and trades and especially in each enterprise. Inasmuch as the total budgetary appropriation for wages is not exceeded, the localities and enterprises should be allowed much leeway in its distribution. Artificial attempts to unify wage rates throughout the country have resulted in an extreme lack of unity in the rates in many enterprises which nevertheless have no power to change them on the principle of "to each according to his work". On the basis of this experience, the following recommendations may be considered:

1. Within the budgetary appropriation for wages to be paid in an area, the local authorities may have the power to make proper adjustments in the wage rates in the trades and enterprises under its administration.

2. Acting within the scope of wage appropriation, an enterprise may have the power to work out its wage rates and bonuses, subject to approval by the workers' congress of the enterprise and by the authorities in charge of the enterprise.

3. An enterprise may have the power to set aside part of the wage fund it saves by raising labour productivity and cutting down the labour force and use it for pay raises, for increasing the wages of a larger percentage of people than specified by the government, or for payment as bonuses.

The authorities in charge of labour forces and wages have exercised a control over wages that is far too wide and rigid. Preoccupied with the need to keep wages within the budgetary appropriation, they stipulated the percentage of workers eligible for pay raises and the size of bonuses for all areas and trades. For instance, 20 per cent was once set as the maximum percentage of people getting a raise, while bonuses were limited to 10-12 per cent of the total sum of wages. This decision turned out to be favourable to overstaffed, inefficient

enterprises where more people got raises and more bonuses were distributed, and unfavourable to enterprises which made better use of their personnel, achieved a higher labour productivity and, on this account, received fewer raises and bonuses. To overcome the equalitarian tendency that had prevailed for years, the state allocated a considerable sum of bonus money in 1978. But as the bonuses were to be distributed by a fixed percentage for each grade and were actually divided up into equal shares in many areas and enterprises, they gave almost no encouragement to the better workers. From now on, the choice of candidates for pay raises and recipients of bonuses should be based on the principle of rewarding the advanced and spurring on those lagging behind. There should be more pay raises and bonuses for advanced enterprises, workshops, teams and individuals, and fewer or even none for the poor ones. The authorities should make periodic assessments of the performance of each enterprise, which should likewise examine the records of its staff and workers. Enterprises doing poorly in production and management may be told to suspend production until they have put themselves in good shape. During the period of suspension, wages (mainly those of the leading cadres) should be reduced. Incompetent staff members and workers may be demoted or transferred to other work. The worst violators of labour discipline, those who refuse to mend their ways in spite of repeated education, may be dismissed by decision of the workers' congress. The extension of an enterprise's right to autonomy should cover the recognition of its right to handle the labour force and wages. Its autonomy will remain incomplete if it is in a position to handle its financial and material resources but not its labour force and wage problems.

In the course of socialist modernization, we must build a number of enterprises which employ the most up-to-date technology and operate with an unusually high labour productivity. Correspondingly, we have to organize contingents of workers and staff members who have a high technical level, do conscien-

tious work and strictly observe the operational procedures and labour discipline. They should receive fairly high pay and enjoy better working and living conditions. Enterprises of this type may be granted priority in the selection of recruits from among young people, including the many now awaiting employment. But because of China's large population and weak economic foundation, it is only in a limited number of enterprises, out of the several hundred thousand in the country, that the ranks of workshop and office workers can be streamlined and their wages and benefits increased by modernization standards through state assistance; the rest will have to depend on their own resources to raise the living standards of their workers and staff step by step through technical innovations and rises in labour productivity. To raise labour productivity and create jobs at the same time, we will continue to carry out for quite some time the principle of a simultaneous development of large, medium-sized and small enterprises and of mechanized, semi-mechanized and handicraft production. This will tend to widen the pay gaps between different types of enterprises. But we shouldn't be afraid of the gaps. A vigorous development of productive forces will be impossible unless we put an end to the equalitarian tendencies in the handling of wages both within an enterprise and in different enterprises, and seriously work out the pay scales in proportion to what a worker does for his enterprise and what an enterprise does for the state so as to combine properly the interests of the state, the enterprise and the individual.

In this connection, it seems necessary to examine further the principle of "to each according to his work". We used to interpret the principle as one of determining the pay for work according to the quantity and quality of labour or, in other words, the work hours and the intensity, skill and complexity of labour. These are the manifestations of the labour power expended by a worker and of his abilities. But they are not enough. The economic results of his labour, which means the size of his contributions to his enterprise and to the state,

should also be taken into consideration. It should also be noted that, under the conditions of large-scale modern production, the economic results of labour are determined not only by the abilities of the worker but also by a scientific division of labour and co-operation among the workers in an enterprise and, furthermore, by the enterprise's co-operation with other enterprises and establishments and whether its economic activity answers the needs of the state and the people. All these should be taken into consideration when the economic performance of an enterprise is examined so that the labour expended by the worker may do the greatest economic good to the state and the people. An excellent worker cannot do much if management is poor or if his job is inappropriate. Likewise, even if an enterprise has ample material and human resources, it cannot achieve much economic success if it is not properly managed, or doesn't act in concert with related enterprises, or doesn't turn out products needed by the state and the people. To get all working people interested in the results of their work, it is necessary to make their pay dependent on the economic performance of their enterprises. This is an important issue in a reform of the wage system.

5. PERSONAL INCOME UNDER COLLECTIVE OWNERSHIP

"To each according to his work" is also the general principle followed in the economic sector under socialist collective ownership. But its application is limited by the economic conditions under such a system of ownership and takes on many special features.

The two forms of public ownership of the means of production in a socialist country give rise to two corresponding forms of distribution.

In the economic sector under ownership by the whole people, the products of an enterprise belong to the state. The

enterprise turns over most of its profits to the state and retains the rest as its own fund. It pays its workers and staff basically according to the unitary wage scales of the state on the principle of "equal pay for equal work".

Things are different with the economic sector under collective ownership. Here the products belong to the collectives, each of which conducts reproduction and arranges for the livelihood of its members by means of its proceeds from production. Thus it is not yet possible to apply the principle of "equal pay for equal work" insofar as different collectives are concerned. Within the same collective, distribution is carried out according to the work done by each person as in a state-owned enterprise. But in different collectives it is carried out according to the quantity of products available to each of them. The pay is higher in communes, production brigades and production teams which achieve a higher labour productivity, produce more and earn more, and lower in the opposite case. This means considerable differences in pay between communes, brigades and teams in addition to those between workers and peasants. Apart from their initiative, the communes, brigades and teams earn a higher or lower income because:

1. Their natural conditions are different, such as the size and fertility of their land, their location on a plain or in a hilly region, in a warm or cold zone, the amount of rainfall, and contiguity to market. Under capitalism, the extra profits accruing from advantages in these respects are basically collected by the landowner in the form of differential rent. Although private landownership has been abolished and the concept of differential rent no longer exists in a socialist country, the varying natural conditions affecting the output of economic collectives give rise to a differential income so long as these collectives are responsible for their own profits and losses and earn more by producing more. This is an important reason for the unequal pay in different collectives.

2. Apart from land, the other means of production also vary

in quantity and quality from one collective to another. These include draught animals, farm implements, farm machinery, chemical fertilizers, insecticides, irrigation facilities, etc. Land may be worked by tractors, oxen or ploughs and spades. Collectives equipped with better means achieve a higher labour productivity and pay more for each workday.

Although natural conditions and the means of production do not create value in themselves, equal labour in agriculture may produce unequal results. Wage differences in different collectives arising from this factor are therefore a reflection, in the sphere of distribution, of their unequal appropriation of the conditions of material production. Differences in pay arising from unequal appropriation of the means of production have been basically eliminated among enterprises under ownership by the whole people, but this is something that cannot be done in the economic sector under collective ownership. In the case of the collectives, the state can only help to narrow the differences but cannot eliminate them.

Under socialism, the principle of exchange of equal values is basically practised between the state and the collectives, so that a commune, brigade or team that sells more agricultural produce gets more industrial goods in return. In other words, the state supplies goods to the collectives in proportion to the quantity of products they provide to the state. Communes, brigades and teams with better conditions of material production, including natural conditions and means of production, are able to pay more to their members on the basis of a higher labour productivity and more proceeds from production. The pay for a workday in a high-yielding commune, brigade or team may be several times that in a low-yielding one. This shows that two principles of payment are basically followed in the collectives: the principle of more pay for more work within a collective as a single business accounting unit and the principle of more pay for more output among different collectives as different business accounting units. Marx says that in the application of the principle of "to each according to his work",

a socialist society tacitly recognizes "unequal individual endowment and thus productive capacity as natural privileges". As far as distribution in the economic sector under collective ownership is concerned, we have to recognize tacitly the unequal conditions of material production in different collectives as their "natural privileges", which actually are social privileges. But such differences have to be recognized as long as collective ownership needs to be retained. Any attempt to eliminate such differences by taking things from the better-off collectives and giving them to the poorer ones would amount to the abolition of collective ownership, which would do much damage to agricultural productive forces. No such policy should ever be adopted.

It should be stressed that if nothing is done about the economic disparities among the collectives, they will tend to grow and will never diminish by themselves. The high-yielding communes, brigades and teams not only enjoy a higher living standard but increase production at a faster rate because it can set aside more money to buy farm machinery, chemical fertilizers and insecticides and undertake farmland capital construction on a large scale. The low-yielding communes, brigades and teams can hardly save any money and whatever savings they may have are used up as relief tc households which are almost perpetually in debt. Their hard-pressed members have to spend much time on their private plots and household side-occupations to make a living, which cannot but affect their participation in collective production. Over the years, the disparities in living standards between rural areas have not narrowed but widened. While the peasants in a few high-yielding areas are faring as well as industrial workers and those in some communes, brigades and teams are even better off than the latter, agricultural production has shown little progress in many low-yielding areas and has remained what it was in the early post-liberation years in some localities. This is unfavourable to a general, nationwide development of agricultural production.

To narrow the economic disparities among communes, brigades and teams, the state should take over part of the differential incomes arising from better natural conditions by agricultural taxation and other economic means and use the revenue to help the poor collectives. However, the high-yielding collectives must be allowed to keep the margins over the incomes of the average collectives which they have earned by improving their material conditions of production through self-reliance, e.g., by intensive cultivation, levelling the land, building farmland irrigation works and buying farm machinery. This will encourage them to do an even better job.

The form of payment in the economic sector under collective ownership also differs from that in the sector under ownership by the whole people. Operating with poor equipment and a low labour productivity, agriculture under collective ownership in China cannot fully protect itself against natural disasters and produces little to be set aside as reserve. Thus the farm collectives cannot afford to pay their members relatively fixed wages as in the state-owned enterprises, but have to work out their remuneration in terms of workpoints which do not have a fixed value. As the value of the workpoints varies from one collective to another and from a good year to a bad one, the peasants do not always enjoy a stable income.

The workpoints are calculated chiefly by two methods — by the points due to each person in a workday and by his fulfilment of labour quotas. The former is similar to time wages and the latter to piece wages.

With the first method, the collective determines the number of points due each member in a workday according to his productive capacity, skill and conscientiousness. With the second method, the points are determined by the fulfilment of labour quotas set for various jobs. During the final accounting at the year's end, the collective counts the total number of workpoints due its members, sees how much consumption fund is available for distribution among them, divides the latter by the former to determine the value of each workpoint, and

works out the pay for each person on that basis. The members may advance part of their pay in the course of the year.

Like piece wages in state-owned enterprises, workpoints allotted according to the fulfilment of labour quotas boost the labour enthusiasm of commune members under certain circumstances, especially during the busiest seasons when planting or harvesting has to be rushed through. Workpoints allotted this way encourage the peasants to work longer hours and draw in people who usually do not take part in collective labour. As long as agriculture continues to depend mainly on manual operation, workpoints should be allotted by this method on a wider scale. The situation will be different after the mechanization of farming.

A third method is to assign labour quotas to various groups and determine the pay for each group according to its output. This method is applied within the framework of the production team as an independent accounting and distribution unit, and doesn't affect its status as such. It bases the pay of commune members on the quantity and quality of the labour they provide as well as the results of their labour, and so helps improve the quality of their labour. This method is still under experiment in some areas and, if it proves to be an effective way to raise production, may be applied on a wider scale after popular discussion on its suitability to conditions in each locality and to different kinds of farm work.

While the workpoint system has been adopted in agriculture mainly because of the low level of productive forces there, it also has much to do with the seasonal nature of farm work, which requires little labour power in a slack season but a workday of more than a dozen hours and even the participation of usually idle manpower in a busy season. Whereas the wage system requires a relatively fixed number of workers and work hours, especially in the case of time wages, the workpoint system is much more flexible, especially when it is based on labour quotas. The latter provides a fair pay for peasants who work longer hours and for anyone who wishes to lend a hand

in a rush season. It also allows people to go to work less often in a slack season so that the communes, brigades and teams may save their outlays in workpoints. Even some state farms, which are under ownership by the whole people, are introducing a workpoint system in addition to the wage system. They pay the workers regular wages for a minimum of work hours and give them additional workpoints for any extra work done by them or their family members. Practice shows that such a system has certain advantages at present.

As agricultural production develops, the collectives will be in a better position to combat natural disasters and accumulate reserves, and will be able to pay their members at fixed rates even in a bad year. When this happens, the collectives will be able to switch from the workpoint system to the wage system or a combination of the two. As some state farms are doing now, they will fix the wages of their members and pay them on a quarterly or monthly basis, giving them an extra sum at the year's end if the final accounts show a fairly big surplus. In a good year, more will be set aside as reserve to ensure that wages are paid at usual rates in case of a lean harvest. All this will mean much security for the peasants. But a "wage system" like this will still be quite different from that in the state-owned enterprises because, in the absence of a unified wage scale for all collectives, the pay level will continue to depend mainly on the output of each collective and vary from one collective to another, and the principle of "equal pay for equal work" still cannot be basically carried out among the collectives as among state-owned enterprises.

While the state-owned enterprises pay money wages, the collectives distribute about one-fourth of the pay in money and the rest in farm produce. The large proportion of payment in farm produce, mainly grain, indicates that agricultural production in China is still largely self-sufficient. When labour productivity in agriculture rises sharply, enabling the collectives to sell much more farm produce to the state and buy a much bigger volume of manufactured goods from the state, the por-

tion paid in farm produce will decrease and that paid in money increase.

The form of payment in the collectives is distinguished from that in state-owned enterprises by the workpoint system and the large proportion paid in farm produce. But these are mere phenomenal differences. The essential difference lies in more pay for more output. Advances in agriculture will lead to changes in the specific forms of payment in the farm collectives. But the essential difference between the systems of distribution under collective ownership and ownership by the whole people will not vanish completely until agriculture switches from the first system of ownership to the second. After the replacement of the workpoint system by the wage system and of payment in farm produce by payment in money as the main form of remuneration, more pay for more output will remain a principle of distribution under collective ownership so long as each collective continues to pay its members on the basis of its proceeds from production. Without a change in the ownership of the means of production, no fundamental change in the distribution system is possible.

6. CORRECT HANDLING OF DIFFERENCES IN LIVING STANDARDS

Differences in living standards are inevitable between the working class and the peasantry, within the ranks of the working class and within the ranks of the peasantry in a socialist country because it has two systems of socialist public ownership and follows the principle of "to each according to his work". In his speech, "On the Correct Handling of Contradictions Among the People", Mao Zedong underscores the need to handle correctly the contradictions within the working class, within the peasantry, and between these two classes, so as to bring into play all positive factors that may serve the cause of building a powerful socialist country. The fundamental reason

for keeping the present differences in living standards lies in the extremely low level of productive forces which cannot be developed properly if a premature attempt is made to minimize the differences. However, we should create conditions for narrowing them down step by step.

The differences in living standards between the working class and the peasantry in China are determined by the relatively high labour productivity of the former and the extremely low labour productivity of the latter. These differences cannot be narrowed except through a sharp rise in the peasants' labour productivity and in their income. For over twenty years, the ratio between the living standards of the workers and the peasants has basically stood at about 2 to 1. It has dropped a little where agriculture has developed faster and has risen where agriculture has made little progress. It exceeds 2 to 1 in most areas and is as high as 3 or 4 to 1 in some areas. Instead of closing our eyes to this, we must take specific measures to solve the problem gradually. The peasants' earnings have approached those of the workers in some areas and have exceeded them in a few areas. However, the rural environment of the peasants, both material and cultural, is still inferior to that of the workers living in the cities, which makes a big difference. To promote agricultural development, a portion of peasants should be paid slightly higher than workers in a given period of time provided agricultural production grows and brings in a better income; there is no harm in allowing the peasants to become richer. But for a long time to come the pay of most peasants cannot possibly exceed the wages of the workers, which are still very low and will have to be increased sharply. In well-off communes, brigades and teams, the peasants should be encouraged to set aside more of the profits as accumulation. Except in poor collectives, the profits of the industries run by communes and their subdivisions generally should not be distributed for consumption but should mainly be used for farm production and the advancement of these industries, while a

part may go to the poorer brigades and teams as financial assistance.

Within the ranks of the workers, the main problem at present is equalitarianism rather than excessive differences. It is necessary to adhere to the principle of "to each according to his work" and, within the limits of financial resources and the commodities available on the market, grant bigger pay raises to those workers and staff members who are highly skilled and have made unusual contributions. As most of them are middle-aged and have a fairly heavy family burden, they would not enjoy a much higher living standard than younger people even if their wages were raised two or three grades higher than those of the latter.* The state may also provide material rewards for the workers and staff members for outstanding fulfilment of production plans. Among the state-owned enterprises, the principle of equal pay for equal work can only be practised in a relative sense. Instead of adopting a realistic approach, some comrades mistake the above measures as signs of an "exclusive stress on material benefits" and "reliance on material stimulants" impairing the "purity" of socialism; they should distinguish between right and wrong and free themselves from such a misunderstanding.

Another drawback of the present wage system is that the wages of the scientific and technical personnel are too low to meet their indispensable needs in work and everyday life. To speed up socialist modernization, this problem must be solved as soon as possible. Once this is done, we should then guard against the possibility of widening the differences between their living standards and those of the masses to the extent of alienating them from the latter. Meanwhile, we should pay greater attention to the life of workers and staff receiving lower wages and, within the limits of our financial means and supply of commodities, gradually raise their pay scales. In this

* In terms of money, a difference by one grade generally amounts to 10 yuan or about 7.00 U.S. dollars.—*Trans.*

way, the gap between the maximum and minimum wages will not be widened but narrowed steadily as production grows. Furthermore, Mao Zedong repeatedly pointed out that leading cadres of the Party and the government should never seek privileges and should maintain the fine tradition of hard struggle of the revolutionary war years, that all extravagance and waste must be criticized and those who have committed serious offences should be demoted, removed or even punished by law. This is a crucial point. The tendency to seek privileges is a violation of the principle of "to each according to his work", a corrosive that results in the estrangement of our cadres from the masses and in their degeneration. Effective measures should be taken to clear it away.

The differences in the living standards among peasants are even more pronounced than those among the workers or between workers and peasants. In the more than two decades since the completion of the movement to set up agricultural producers' co-operatives, differences between various areas and between communes, brigades and teams have not narrowed but have continued to widen. Agricultural production is limited by natural conditions, which vary greatly in such a vast country as China. The differences in living standards as a historical legacy cannot be eliminated in a short time. All we can do is to create conditions for narrowing these differences by developing production and extending substantial state assistance to poor areas and collectives for a faster growth of farming, animal husbandry, forestry and side-line occupations. The state should recognize the legitimacy of the increase in income achieved by collectives through their hard work so as to encourage the advanced and spur on the backward. As for the differential income arising from better natural conditions, the state may regulate it by such measures as levying a progressive income tax on high-yielding areas to subsidize low-yielding areas, purchasing the produce from low-yielding areas at favourable prices, drawing more bank deposits from the collectives and the peasants in high-yielding areas to finance

loans for agricultural development in low-yielding areas, or increasing budgetary investments in low-yielding areas to help them improve their conditions at a greater speed. Many communes and their subdivisions have developed their own industries and have thus increased industrial support for agriculture in recent years. While this is a remarkable achievement, attention should be drawn to the fact that commune industries have grown fast in the industrially developed coastal areas but rather slowly in the industrially underdeveloped interior regions — a factor which will widen the economic disparities between various regions. Because of the "scissors" differences between industrial and farm prices, industrial accumulation builds up much faster than agricultural accumulation, and as the communes and their subdivisions keep for themselves the funds accumulated by their industries and may use them for extended reproduction, their industries grow faster than state-owned industries which have to turn over the bulk of their accumulation to the government. Thus it is necessary to see how the funds accumulated by commune industries can be used rationally. The state should guide commune industries along proper lines and help communes in mountainous and pastoral areas develop their industries speedily by utilizing local resources. It should prevent a further widening of the disparities between various regions by helping the poor collectives increase their income and not by forcing down the income of the rich ones.

In our studies on the question of distribution, we have concentrated on distribution within the ranks of the workers and staff in state-owned enterprises and state organizations, paying little attention to distribution between the working class and the peasantry and still less to distribution among the peasants. This was a shortcoming. It seems necessary for theoreticians and business personnel to give more thought to the question of narrowing the differences among the peasants, especially the economic disparities between areas, and devote themselves to this important subject of study.

Chapter V
COMMODITY AND MONEY UNDER SOCIALISM

1. EFFECTIVE USE OF THE COMMODITY-MONEY RELATIONSHIP

The experience of socialist countries over the decades has proved that effective use of the commodity-money relationship, including the role of the market, is necessary in building socialism. This is especially true of China, where the commodity economy remains under-grown and the commodity-money relationship needs to be developed. Use of the commodity-money relationship was instrumental during the drive to place the means of production under socialist ownership. Commodity and money will continue to play a crucial role in speeding up socialist economic construction, satisfying the ever rising material and cultural requirements of the population and achieving the modernization of the nation's economy.

In the years of the War of Resistance Against Japanese Aggression (1937-45) and the War of Liberation (1945-49), the Chinese Communist Party gained experience in combating the enemy through trade, recognizing the objective laws governing the circulation of commodities and money. In the struggle waged soon after the founding of New China to stabilize prices and contend with the capitalist class for dominance over the market, the state did not limit itself to the use of administrative means, such as official control over the market and over prices, but made full use of economic means, that is, the objective laws governing commodity and money, and did so with much success.

As soon as prices were stabilized, the state organized a large-scale exchange of goods between town and country, increased the amount of currency in circulation to meet market needs, purchased grain, cotton and other key agricultural products from the rural areas, bought up the goods stocked by industrial capitalists and signed contracts with them under which they provided the state with manufactured goods. These exchanges of commodities contributed much to the rehabilitation and development of industrial and agricultural production. Working through such channels, the state gained control over nearly all bank deposits and over the circulation of major industrial and agricultural products, firmly establishing the leadership of state economy over the other sectors of the economy. Without making effective use of the commodity-money relationship, the state could not have accomplished all this so quickly.

During the period of the socialist transformation of the ownership of the means of production, the Communist Party adopted a policy under which industrial capitalists did regular processing jobs for the state and sold practically all their products to it. Commercial capitalists became dealers in state-supplied goods, while the small producers were linked with the state through supply and marketing co-operatives. Extensive utilization of the commodity-money relationship paved the way for capitalists and small businessmen to accept socialist transformation step by step, finally switching to joint state-private ownership by whole trades or forming co-operatives.

After most means of production were placed under socialist ownership, we should have continued to make full use of the commodity-money relationship and the market, managing the economy on the principle of "strict planning in major affairs and flexibility in minor ones". However, things were not handled this way. For one thing, we did not take into full account the presence of collective ownership all over the country and the predominance of a partially self-sufficient economy in the rural areas. For another, we were not sufficiently aware of the complexity and diversity of the needs in

national construction and in the people's livelihood. Thus too many enterprises were hastily merged in the course of socialist transformation, there was too much rigidity in planning and management, and the role of the market was not brought into full play.

This was an important reason why production and marketing became separated from each other. The chief manifestations of this deficiency, which have existed to this day, are as follows:

1. Urban commerce, monopolized by state commercial agencies, is not sufficiently responsive to market needs. When private shops switched to joint state-private ownership, they fell into two categories: (1) those under state management from which the capitalists drew fixed interest; and (2) small shops acting as retailers or commission merchants for state commerce, which assumed responsibility for their own profits and losses under the signboard of joint state-private ownership. Shops in the second category turned out to be more useful to customers because they were everywhere and worked longer hours.

At first, peddlers were allowed to sell their wares in streets and alleys, offering ready service to the residents. Beginning in the late 1950s, the small shops were abolished and the peddlers assigned other jobs. Even the supply and marketing co-operatives were not allowed to sell in cities the agricultural and side-line products they had purchased from rural areas. Thus everything became monopolized by the state, resulting in perpetual shortages of daily necessities and poor service to customers. Commodities had to go through wholesale agencies at three levels before they reached the retailers, entailing long periods of transit time and further expenses and losses. Worse still, state commercial departments often purchased anything produced by state-owned factories according to plans regardless of market demands, and the goods were either overstocked or sold out. Obviously, all this contradicted the fundamental principle of producing for the needs of society.

2. With regard to the purchase of farm and side-line products, we failed to secure the participation of the peddlers by organizing them through co-operatives. Nor did we ask the communes, brigades and teams to handle the purchase and sale of the scattered amounts of goods produced or gathered by their members. All purchases were left to the supply and marketing co-operatives, which couldn't possibly handle the tens of thousands of farm and side-line products and the wide range of local and specialty products of various regions. In the 1950s peddlers with business licences toured villages collecting local and specialty products not covered by the supply and marketing co-operatives for sale in country markets; but they have long been transferred to other jobs. Since the supply and marketing co-operatives cannot handle the purchase of many of these products, the communes, brigades, teams and commune members have stopped producing or gathering them. Consequently these products are often unavailable on the market, causing losses to the peasants' income, the urban population and the state.

3. The formation of handicraft producers' co-operatives in the mid-1950s resulted in a decrease in the variety and specifications of handicraft goods. Beginning 1958, many handicraft co-ops were merged as co-operative factories, which produced less or none of the miscellaneous goods formerly produced by the co-ops, causing an acute shortage of some small farm tools and household utensils. Ironically enough, people working in mountainous areas had to purchase wash boards in Beijing or paper clasps in Shanghai. The traditional specialties of many areas disappeared. Apart from defective industrial administration, an important reason for all this lay in the over-extended and excessively rigid control over commerce.

Without a doubt, a socialist society must have a unified socialist market with state commerce in the lead. But leadership doesn't mean monopoly; a leader cannot exercise leadership if he does everything himself. In 1962, the Tenth Plenary Session of the Eighth Central Committee of the Chinese Com-

munist Party adopted a decision on the improvement of commercial work, which stated that in a unified socialist market, state commerce occupies a leading position, co-operative commerce assists state commerce and the country markets supplement both. However, the supply and marketing co-operatives, which are completely directed by the state, are co-operatives in name but state enterprises in reality, which means there is no co-operative commerce providing assistance to state commerce. During the ten chaotic years of the Cultural Revolution (1966-76), country markets in many areas either declined in number because of excessive government control or disappeared altogether. The people's communes were not allowed to market their products in the cities, and even the supply and marketing co-operatives could not sell in town the farm produce and side-line products they had purchased. This naturally aggravated the shortage of non-staple foods and other local specialty products on the urban market. The unified socialist market established in China did a good overall job, but such deficiencies should be overcome as soon as possible.

For years, we kept stressing the need to make use of the commodity-money relationship and of the role of the law of value, but did little. In particular, ever since the slogan of preventing and opposing revisionism was raised, economic policies and measures designed to utilize the law of value were often criticized as capitalist tendencies because of a failure to grasp the real differences between socialism and capitalism. Analysis of the theory on commodity and money under socialism and the proper ways to make use of the commodity-money relationship and the law of value are important for China's economic management reform and modernization.

2. COMMODITIES UNDER SOCIALISM

Commodities, known to humanity for several thousand years, are products of labour exchanged between different owners

under the conditions of a social division of labour. Commodity production and exchange existed in slave and feudal societies and reached their zenith in capitalist society, in which labour power, like every social product, became a commodity. That was why Marx opened his *Capital* with an analysis of commodities. He assumed that ownership of the means of production by the whole society would prevail and commodity and money would die out in a socialist society. In countries where socialism has triumphed, however, a commodity-money relationship of one form or another still exists on a fairly extensive scale and continues to grow in strength.

Why is it that commodity production and exchange inevitably exist in a socialist society and have to be developed within a given period of time? This is primarily because in a socialist society there are two systems of public ownership of the means of production. Labour power partially remains a possession of the individual and, consequently, the system of "to each according to his work" and the principle of material interests are followed. More specifically, the following commodity-money relationships exist in a socialist society:

1. Collective ownership exists everywhere in the countryside. The collective economic units and the state, which represents the system of ownership by the whole people, are two different kinds of owners. The economic sector under collective ownership in the countryside consists of several million collectives, each of which functions as an independent accounting unit and owns its products of labour. The state has no way of establishing economic ties with the several million collectives except through a commodity exchange in which each side satisfies the needs of the other with its own products. During the exchange, each side has to consider its economic interests. The pricing of industrial and agricultural products, which determines the redistribution of the national income between the state and the collective economy, should follow the principle of exchange of equal values.

The need for the state to conduct commodity exchange with

the collective economy is no longer a controversial question. However, we have to clarify through discussion whether the state should depend mainly on administrative means or on the law of value to see that agricultural production fulfils its needs and those of the people throughout the country, i.e., the industrial needs for agricultural raw materials and the consumer needs of the population. Stalin says the law of value doesn't regulate but only influences socialist production. At the same time, he criticizes the proposal to underprice cotton, claiming that acceptance of the proposal would discourage the peasants from growing cotton. This shows that the law of value does regulate agricultural production. True, agricultural production must follow state plans. Of the thousands of agricultural products needed by the state and the people, including forestry, animal husbandry, side-occupation and fishery products, the state can at best incorporate a few dozen of the most important ones into its agricultural plans. And since the collectives are responsible for their own profits and losses, such plans should not be in the nature of directives but can only serve as references. Each collective should have the right to decide on its own plan for the cultivation of crops as long as it fulfils the state quotas for a few key products, such as grain and cotton. With grain, for instance, three-fourths of the output goes to the peasants and their collectives while only a little over one-fifth is sold to the state; it is therefore unnecessary to direct the peasants in what should be grown and how. The state can easily accomplish its purchasing plans by reasonable pricing through a correct application of the law of value. As for cash crops and animal, forestry, aquatic and native products, production may be regulated mainly through the pricing policy, that is, the operation of the law of value. For years, underpricing of agricultural products aggravated their shortage, leading to purchases on a requisition basis or by state quotas. Even to this day, non-staple foods are being rationed in many cities. If we raise the purchasing prices of these products by a reasonable margin and ensure the supply

of food grain and fodder to peasants engaged in their production, the output will rise speedily to meet market demands. Many localities were assigned compulsory production targets by official orders instead of being prompted to do things by economic means, resulting in a steady decrease in output. Sole reliance on administrative authority by those who do not know how to apply the laws of a commodity economy often backfires.

2. The workers and staff of state enterprises must still go through channels of commodity exchange to receive the consumer goods owed them under the principle of "to each according to his work". While everybody recognizes the sale of consumer goods to peasants by state commercial agencies as commodity exchange, there is dispute over whether distribution of consumer goods to the workers and staff of state enterprises is also such an exchange. Some comrades argue that this is no longer commodity exchange because the workers and staff already own the means of production; in other words, the state enterprises and the workers and staff constitute one and the same owner, and no commodity exchange can take place between an owner and himself. Although this is true as far as ownership of the means of production is concerned, the two are different owners in another sense, namely, labour power remains partially a personal possession of the worker, who receives a monetary wage as a reward for the amount of labour he provides for society and then buys a corresponding amount of consumer goods from state commercial agencies. Here the pricing of commodities likewise affects the redistribution of the national income between the state and the workers and staff. In their choice of consumer goods, the workers and staff prefer those that are of high quality and inexpensive, buying more when prices are low and less when they are high. Stalin says correctly that the law of value regulates the sale of consumer goods.

Some people contend that instead of conducting commercial exchange, a socialist country may distribute consumer goods

directly to the workers according to the labour time they provide. We have found this impracticable. Owing to the extreme complexity of consumer goods and people's needs and preferences, the state can only let people make their own choices. For this purpose, the goods have to be priced, hence the commodity-money relationship. Some comrades say that distribution according to work represents a relation of distribution and not one of exchange and, consequently, the state commercial agencies selling consumer goods to the workers and staff is a form of distribution according to work and not a matter of commodity circulation. In my view, this is also incorrect. There is no denying that the exchange process in this case is incomplete because nothing is sold by the workers and staff who would have sold their labour power under capitalism. But when they buy consumer goods with money, there arises a relation of commodity exchange. So far as the state is concerned, it sells the available commodities to the workers and staff to get back the money paid to them as remuneration for their labour.

3. We shall now discuss whether the exchange of products between state-owned enterprises is also an exchange of commodities. This question is even more complicated than the previous ones. Enterprises owned by the state belong to a single owner and not to two different owners, prompting Stalin to hold that their exchange is not really one of commodities but only retains the "outward integument" of such an exchange. It is true that this exchange differs in nature from the two previous types because, while it remains necessary here to observe the principle of equal exchange and take into account the influence of prices on profits, the workers and staff are virtually indifferent to the pricing of products; they do not look at such an exchange as commodity exchange since their enterprises turn over all profits to the state and they draw their state wages regardless of profit. Stalin's view largely reflects the economic realities in the Soviet Union in his time.

Theoretically, since all means of production and all products of labour of state-owned enterprises belong to the state, they may be subjected to unified accounting on a national scale. In reality, this cannot be done. Experience shows that it is necessary to conduct accounting at both the national and the local levels so that enterprises at the grassroots may each operate as an independent accounting unit. Unity should be coupled with independence. If an enterprise is to become a truly independent business accounting unit, it must be vested with power to handle its funds and products and the right to enjoy part of its profits. A state enterprise has to consider its own interests while representing those of the whole people or the state. Thus the state must assume its economic responsibilities towards an enterprise and recognize its economic interests when taking over its products; the same is true between enterprises when they exchange products under contract. For this reason, such an exchange takes on the nature of commodity exchange.

4. Exchanges of commodities are often conducted in country markets and may occur between collectives, between one collective and peasants of another collective, between peasants and urban workers, and among the peasants themselves. Such exchanges are not covered by state plans and do not account for a large portion of the national business volume. However, they are a necessary supplement to socialist state and cooperative commerce and an important means by which the peasants make up for each other's shortages and increase their income. They invigorate the rural economy and meet the needs of urban residents and the non-farming population in the countryside. Trade in country markets should be stimulated as part of the effort to take full advantage of the market.

In China, commodity production has been going through a change in nature. As an economic category, all commodities share a common characteristic. When division of labour appears in society and social products become the possessions of different owners, the owners have to exchange products among

themselves on the principle of equality of values as a means of satisfying their wants. Thus social products become commodities, which acquire different features in different periods of social development. Beyond doubt, the division of social labour remains in a socialist society. But do social products remain the possessions of different owners? Clearly, this is the case in the exchange between enterprises under ownership by the whole people and those under collective ownership and in the exchange between one collective and another. But things are more complicated in the exchange between state commercial agencies and the workers and staff of state-owned enterprises. As stated earlier, insofar as the working people jointly own the means of production, the state and the workers and staff constitute one and the same owner. But under the system of distribution according to work, the principle of exchange of equal amounts of labour prevails. In this sense, the state and the workers and staff are different owners, and the exchange between them retains the nature of commodity exchange in general. As for the exchange of products among state enterprises, it is indeed an exchange between an owner and himslf, between the state and the state, in a national sense. But when we look at state enterprises as independent business accounting units, each with its particular interests, the exchange of products between them still has to be an equal exchange based on the recognition of their respective economic interests as in an exchange between two different owners. This will be especially so when the enterprises are granted greater independence and the right to keep part of their profits, spurring greater interest in their earnings. Such an exchange retains not just the "outward integument", but the very core of commodity exchange.

Compared with its counterpart in a capitalist society, commodity exchange in a socialist society shows both similarities as well as differences, which primarily stem from the fact that socialism is based on the public ownership of the means of production as well as most of the products of labour. In

a socialist society, where the capitalists no longer exist as a class, commodity exchange is one without the participation of capitalists. Even trade in the country markets, through which peasants from the collectives exchange or sell privately cultivated products, is under the unified leadership and control of the state. Such a commodity exchange is likewise different from that under capitalism. Denying the particularities of commodities under socialism, Lin Biao and the Gang of Four jumped to the conclusion that socialist commodity production inevitably generates capitalism and the bourgeoisie. This is entirely wrong.

In fact, commodity production and commodity exchange take on different features in different historical periods. Even under capitalism there are two kinds of commodity production — one conducted by the small producer and one by the capitalist, which are obviously different in nature. Not only are commodities under socialism different from those under capitalism, but commodity exchange under socialism also varies. While the commodity exchange between the two systems of public ownership is one in a fairly complete sense, that between state commercial agencies and the workers and staff of state enterprises is not entirely one in the original sense but a kind peculiar to the period of socialism. Although the exchange of products between state enterprises exhibits the nature of a commodity exchange, it has undergone significant changes in content. Commodities under socialism are a vestige or birthmark of the old society, which is retained by varying degrees in the three kinds of exchange stated above.

3. COMMODITY CIRCULATION UNDER SOCIALISM

The different kinds of commodity exchange under socialism require different channels of commodity circulation. The main channels in China are: (1) an official supply setup which administers the exchange of means of production between the

production and construction units of the state; (2) the state commercial setup which supplies consumer goods to the whole country; and (3) the supply and marketing co-operatives responsible for the purchase of farm produce, including products from animal husbandry, forestry, fishery and rural side-lines, and for the supply of manufactured goods, including the agricultural means of production. While the state commercial agencies are oriented towards cities, the supply and marketing co-operatives are oriented towards rural areas, serving agriculture under collective ownership. The other channels of commodity circulation include co-operative stores and commission shops run by neighbourhoods, both of which are under collective ownership, and country markets.

Public ownership of the means of production enables a socialist society to put an end to the anarchy in commodity exchange typical of capitalism. State planning departments are responsible for drawing up plans for the production and marketing of various kinds of products, ensuring a balance between supply and demand. The state also sets up bodies to administer the above-mentioned channels of commodity circulation, each responsible for the exchange of certain types of products. These administrative bodies direct the operations of commercial enterprises, including suppliers of the means of production, and co-ordinate the supply of raw and processed materials and of fuels and the production and marketing of products.

Under socialism, commodity circulation is administered through planning. A unified, planned socialist market is fundamentally different from the free market under capitalism. But socialist countries may borrow much from the relations of specialization and co-ordination established between the material and fuel suppliers, the producers and the sellers in capitalist countries to meet the needs of large-scale socialized production as well as the corresponding forms of organization, such as specialized and integrated corporations. Following the methods of economic management in the Soviet Union in

the 1950s, we used to draw a hard and fast line between production and circulation, and our circulation departments exercised too sweeping and too rigid a control over the exchange of commodities. Looking back, we find this practice unfavourable to socialist economic development. Some of the producer units should have the right to market part of their products. In the case of some products, the producer and the customer may enter into direct contracts on the goods to be supplied without going through the circulation departments. In their handling of commodity exchange, the circulation departments should likewise make full use of the market and establish various channels to facilitate contacts between material and fuel suppliers, producers and sellers. It is wrong to assume that a unified socialist market means a state monopoly exclusive of all other channels of circulation.

As leading administrative bodies, the General Bureau of Supplies, the Ministry of Commerce and the National Federation of Supply and Marketing Co-operatives should take charge of research on the balance between the demand for and supply of various kinds of products, reporting any imbalance to the planning and production departments for a readjustment of production plans. They should guide and adjust the business operations of the commercial enterprises subordinate to them, including suppliers of the means of production, by such means as setting up, cutting down or merging specialized and integrated companies. They should also establish links between producers and users and rechannel oversupplied goods to needy areas. The actual commodity exchanges should be left to the specialized and integrated companies and commercial networks.

SUPPLY OF MEANS OF PRODUCTION

When China launched her First Five-Year Plan (1953-57), the means of production were divided into three categories. Those in Category I were allocated by the State Planning

Commission, those in Category II by the central ministries while only those in Category III were open to free exchange. But with so many varieties and specifications of products, the State Planning Commission could only draw up an allocation plan and had to leave the actual allocation to specialized departments. What really happened was this: After the State Planning Commission announced the allocation plan, the specialized departments each put forward a production and supply plan for its particular trade on the basis of the requests from the central ministries and the localities. A meeting was held for the placement of orders, which were accepted by the respective central ministries or the bureaus of provinces or municipalities. Then the goods were supplied and delivered from the different trades or enterprises. In line with this practice, the central and local authorities set up their own purchasing and marketing agencies. The whole setup, organized vertically along trade lines, created almost insoluble contradictions between producers and users. Things came to a head towards the end of the 1950s when many of the supplies to be provided under the contracts were unavailable because less was produced than promised in the allocation plans. The enterprises went their own ways to get what they needed, and the authorities in charge of allocation often couldn't get supplies from subordinate enterprises. Purchasers from industrial and commercial enterprises rushed for goods everywhere — a sign of the sharp contradiction between supply and demand.

In the early 1960s the central authorities established the General Bureau of Supplies, which began to distribute the major means of production through specialized companies and their local branches. The quotas were allocated by the higher administrative bodies to the lower ones and the actual means of production were distributed on a trial basis by the General Bureau of Supplies and its subordinate agencies to various economic zones. Like those under the Ministry of Commerce, the specialized companies under the bureau organized the supply of the means of production through the market. This

was a much more flexible approach and represented a big advance over the practice in the 1950s. It was a pity that the Cultural Revolution started before there was time to complete this reform. The new endeavours were denounced as an attempt at capitalist restoration and the new institutions were abolished, upsetting the whole allocation system. As it was hard to get supplies through normal channels, purchasing agents again haunted factories and mines. Practically all enterprises tried to store up anything they could get hold of. Once the capital goods were put in warehouses, they might stay there for good. This was why people said that they "ended their lives the moment they were delivered". As the stockpiles grew larger, the circulation became slower. Efforts have been made to straighten things out since the collapse of the Gang of Four, but the question has not been solved at its root.

The serious confusion in the supply system today is caused by many factors. First of all, imbalances in the economy have resulted in a discrepancy between supply and demand with respect to major items like rolled steel, coal, cement and timber. In addition, serious waste on the part of users and the tendency to base allocation plans on unguaranteed supplies add to the difficulties in actual distribution. Furthermore, the production plans are subject to frequent change, upsetting the original supply plans and contracts and causing overstocking and waste. As for the supply work, the main trouble today lies in the man-made shortage of goods for circulation caused by the reserves built up in the different trades, localities and enterprises which are not sure of getting what they need from the state. For example, rolled steel is simultaneously in short supply and overstocked. The major reason for this state of affairs is the irrational allocation system; the situation is aggravated by the inadequate provision of varieties and specifications to meet the needs of production and construction units.

In view of all this, the state should strengthen its control over the supplies designated for nationwide allocation. Ex-

cept for cases where producers and users may enter into direct contracts, such as on the supply of coal to large iron and steel works and power stations, the supplies to scattered users must be handled according to planned quotas by specialized companies set up by the allocation or production authorities so as to eliminate overstocking and waste at each level. Like the commercial departments, the allocation departments should conduct commodity exchange and set up marketing agencies through which users may freely choose the supplies they need and purchase them by the assigned quotas. In other words, distribution by administrative methods should be changed to commodity exchange.

The distribution of the means of production is not quite the same as that of consumer goods. The former involves a relatively small range of goods and a fairly fixed number of users insofar as the supplies under Categories I and II are concerned. With respect to the many products which are made in a small range of specifications but are needed in large quantities, producers and users may sign contracts on a fairly permanent basis without having to go through marketing agencies. Thus the allocation of the means of production may take the following three forms:

1. Goods for special use by permanent customers in large quantities may generally be supplied through direct contracts with producers. Examples are special equipment for capital construction units and raw materials and fuels which are needed by major enterprises in large quantities but rather fixed types and specifications. This form should be adopted wherever producers and users can make direct contacts and sign long-term contracts, eliminating intermediate links. It can be applied on a much wider scale when supply is balanced with demand.

2. General goods for scattered users are suitable for distribution by the marketing agencies, i.e., the specialized companies set up by the allocation authorities. Users will benefit from production departments or major enterprises, such as

specialized or integrated production companies or big plants, which have their own marketing agencies. This will be much more practical than the allocation authorities trying to take everything into their hands. For example, iron and steel, classified as supplies to be allocated by the State Planning Commission, are so varied that it is preferable for specialized companies to handle their distribution. The same thing applies to many kinds of general machinery and equipment, especially parts, spare parts, and measuring and cutting tools. The widest possible marketing network should be establised for such items in universal demand, allowing for on-the-spot purchases and eliminating the need for every user to build his reserve. In a vast country like China, the supply companies should be administered by authorities at different levels under a unified leadership. If the various departments, localities and enterprises are relieved of their present burden of procuring supplies and marketing their products and hand over the job to specialized companies, there will be no need for purchasing agents to hunt for goods. In addition, the present reserves can be cut down by billions of yuan, making for a full use of financial and material resources.

3. Supplies under Category III should be exchanged freely. Producers should be allowed to market their own products, and users may purchase anything they need. Supply agencies, commercial departments and supply and marketing co-operatives should facilitate the timely exchange of such products with the co-operation of production departments.

SUPPLY OF CONSUMER GOODS

In China, consumer goods are handled more flexibly than the means of production. However, urban commerce is basically monopolized by state commercial departments which, in the absence of competitors, easily acquire bureaucratic habits, so that service at many "government shops" is even inferior to that at private shops, doing harm to the prestige of socialist

commerce. The channels of circulation are too few, the links too many. Industrial goods have to go through purchasing and supply stations at two levels and wholesalers at a third level before they reach the retail shops. Each link adds some circulation expenses to the retail prices to be borne by the consumer. Thus the solution is to increase the channels and cut down the links. The supply and marketing co-operatives should be allowed to sell directly in the cities part of the products they have purchased from the rural areas, and people's communes should be able to sell part of their produce in town either separately or by setting up joint marketing organizations. Some factories should handle the sales of their own products while retailers should be able to buy stocks directly from factories without going through wholesalers. All this may place the purchasing and supply stations and wholesale shops at different levels in an unfavourable position in face of competition. But such methods bring only good and not harm to the state and the people. Freed from some of their usual burdens, the purchasing and supply stations and wholesale shops may do a good job of channelling surplus goods to needy areas and exploiting the sources of more and better varieties of goods. The leading role of state commerce will not be weakened because of the changes.

Experience shows that state monopoly over the purchase and distribution of a great many items of daily necessity easily leads to a discrepancy between production and market demands, causing a chronic shortage of some products and an almost perpetual overstocking of others. This is because, in the case of products earmarked for state purchase and distribution, the commercial departments have no choice but to purchase them from the factories in any type or quantity in which they were produced according to plan. In this way, the varieties and specifications of goods cannot be fully suited to consumer needs. The procedure has to be reversed. The commercial departments should base their purchasing plans on market demands and the industrial departments should base

their production plans on the purchasing plans of the commercial departments. In addition, the commercial departments should suggest to co-operative factories, neighbourhood factories and commune enterprises the production of daily necessities in demand which are not provided by state enterprises, or may also ask the latter to produce the same. Farm produce and side-line and native products in demand may be purchased either through the supply and marketing co-operatives or through commune enterprises. State commercial departments should be vested with power to reject inferior or unmarketable goods. If the factories consider them marketable, let them handle the sales. But will the change from state purchase and distribution to the free choice of goods and the sales by producers upset market stability? No. Even some fluctuation is far better than "a pool of stagnant water". On balance, the advantages will outweigh the disadvantages because production and circulation will be better suited to the needs of the market and the consumer.

Among the channels of commodity circulation in China, the most serious bottlenecks are found in those for the purchase of farm produce and side-line and native products. These products include many varieties, come from scattered producers and are difficult to transport, posing too heavy a task for the supply and marketing co-operatives. In the early 1950s, the channels of exchange between town and country worked fairly well because, while the supply and marketing co-operatives were helping agricultural production and promoting the interflow between town and country, peddlers took care of the transportation and sales of farm produce and side-line and native products not covered by the co-operatives. After the means of production were basically placed under socialist ownership, the peddlers were all transferred to other jobs. Rural communes, brigades and teams were only allowed to engage in agricultural and side-line production; their attempts to venture into business by taking their farm produce and side-line and native products to the market were banned as "capi-

talist activities". Obviously, the supply and marketing co-operatives couldn't handle the great number of items in these categories. Consequently, although the agricultural departments issued circulars almost every year for peasants to grow more castor oil and sunflower crops and newspapers called on the communes to pay attention to the autumn harvests of such "minor crops", the output of many products dropped as much as 70 to 80 per cent in some areas as compared with the early 1950s. This meant a sharp drop in the income of the peasants and a scantier supply of such products to the cities.

To eliminate the bottlenecks, enterprises run by the communes and their subdivisions should be allowed to purchase, transport and market such products. They may sell them to the supply and marketing co-operatives, to the state shops, or to the urban population directly. They may also set up shops in cities and towns as a supplement to the state-owned ones to sell vegetables, meat, fish, poultry, eggs and other non-staple foods. These products are now going through wholesale centres and retail shops before they reach consumers, involving a number of intermediate links and resulting in much spoilage. The peasants are complaining that the purchasing prices are too low, the consumers are complaining that the selling prices are too high, while state commerce has to sustain the losses. The principle of "walking on two legs" should be applied here. The non-staple food companies may continue to operate in large and medium-sized cities to handle the larger volumes of supplies and especially to balance surplus with deficiency in various areas. The other items may be left to the care of the communes, brigades and teams and the peasants. It should be made clear that the transportation and marketing of farm and side-line products by commune enterprises are a form of socialist commerce and not a capitalist undertaking. How can anyone say that it is "socialist" to let the native and mountain products rot in the mountains and

"capitalist" to bring them to urban customers? By such logic, how can one uphold the superiority of socialism?

Will the increase in the channels of commodity circulation and some competition disrupt the unified socialist market and result in anarchy? Of course not. The state commercial departments and the supply and marketing co-operatives enjoy absolute predominance over the market. Permitting certain state factories and commune enterprises to market their own products doesn't mean an end to their distribution by state commerce, which has large funds and an extensive network and to which the factories and communes would gladly hand over the bulk of their products if it were more effective. In particular, balancing surplus with deficiency in the various areas is usually a job beyond the capacities of factories and communes and so can only remain the responsibility of state commerce. The marketing of locally produced and consumed industrial goods and farm produce by their producers, i.e., by the factories and communes, will be of much help to state commerce and will not disrupt the unified socialist market. In commercial work it is likewise necessary to follow the principle of "strict planning in major affairs and flexibility in minor ones", and there are more advantages than disadvantages in sponsoring some market competition. Monopoly by state commerce without any competition will not help promote production or satisfy the requirements of society. Neither will free competition without leadership by state commerce be beneficial.

Country markets and co-operative commerce in cities and towns should also be expanded as channels of circulation. The commercial networks in large and medium-sized cities generally do not provide enough nearby shops and stands for residents. More co-operative shops would make up for the deficiency and create jobs. Some people are worried that an expansion of urban co-operative trade and country markets would give rise to capitalist activities. Minor capitalist activities need not be feared. Departments in charge of such trade may tighten

their control, and state commercial departments and the supply and marketing co-operatives may step in to squeeze out the capitalist elements whenever necessary. Capitalism cannot run rampant as long as the socialist economy enjoys absolute predominance.

4. MONEY UNDER SOCIALISM

Money is a product of the spontaneous development of commodity exchange, and no fairly developed commodity exchange is possible without money as a medium. Since commodity production and exchange remain quite widespread in a socialist society, money is bound to exist.

Money in a socialist society is still a universal equivalent of commodities, but it is essentially different from that in a capitalist society. Money is no longer a means for the capitalists to exploit the working people, but a tool in the hands of the proletarian state and the working masses to serve the socialist economy. It embodies the socialist relations of production and, under the tight control of the proletarian state, cannot normally be converted into capital.

Money plays an important role in the socialist economy. It is still a measure of the value of various products and a means of circulation or a medium of exchange. It is used to calculate the value of products by state planning, financial and economic departments and by industrial and commercial enterprises. The overall balance in a national economic plan is illustrated by indices worked out in terms of both material products and money. All this shows the role of money as a measure of value. Its role as a means of circulation is chiefly manifest in retail trade. The exchange of commodities in large quantities among state enterprises and collective economic units is conducted not by cash payment but through bank account transferences.

Secondly, in a socialist society, money retains its role as a

means of payment and storage. Its role as a means of payment finds expression in the taxes and profits turned over by enterprises to the financial authorities, the funds allocated by the financial authorities to enterprises, offices and other institutions, the loans granted by banks to state enterprises and collective economic units, and the repayment of such loans by the latter, etc. State enterprises, collectives and the working people deposit their money in banks, using money as a means of storage.

To make sure that money performs these functions, it is necessary to maintain its purchasing power. In other words, the amount of money, when recovered, should basically be worth the same amount of social products as it was at the time of issuance. Only thus will there be no loss to the creditor or the debtor. In other words, it is necessary to stabilize the value of money as much as possible.

However, as production grows and labour productivity keeps rising, the per unit value of a product, that is, the socially necessary labour time expended on it, drops steadily. If the value embodied in money remains constant, the prices of various commodities will keep dropping. The solution is to devaluate money in proportion to the rise in labour productivity. For instance, when social labour productivity doubles, which means a drop in the value of all commodities by 50 per cent, the value of money will have to drop by the same ratio so that the same amount of money will still be worth the same amount of products.

The socially necessary labour time embodied in commodities is a highly complicated matter of which an accurate calculation is hardly possible because it contains not only the living labour expended in a particular enterprise but the materialized labour transferred from other enterprises. Historically, money as a universal equivalent was always identified with a particular social product. In a fairly developed commodity economy, gold or silver serves as money. They can serve as money because, like all other commodities, they too contain value, i.e., socially

necessary labour time. As in the case of all other products, a steady rise in labour productivity continually cuts down the socially necessary labour time consumed in their production. From a long-term point of view, the labour time represented by such metallic money will gradually decrease as is true of all other commodities.

This quality of metallic money makes it possible to maintain the relative stability of prices. When labour productivity in the production of gold or silver rises at the same speed as that in the production of other social products, prices remain unchanged. When the former rises faster than the latter, prices go up steadily. When the former rises more slowly than the latter, prices gradually go down. Therefore, the use of gold and silver as money maintains the stability of prices only in a relative sense. The influx of cheap gold into Western Europe in the 16th century boosted prices in several countries there by about three times within one century. In China, the fairly rapid decrease in the value of silver has also forced prices up in the last few centuries.

After a major economic crisis broke out in the 1930s, capitalist countries abandoned the gold standard one after another and adopted a paper money system. Nevertheless, the governments of various countries maintained official stipulations on the gold content of their money and on their minimum gold reserves. Whenever necessary, they sold gold at official rates to withdraw surplus paper money from the market in an effort to stabilize the value of money and the prices of goods. After the outbreak of the world monetary crisis in 1971, these governments were no longer in a position to guarantee their official gold exchange rates and the United States of America announced its decision to suspend the exchange for gold at the official rate, causing a sharp rise in the gold price. The price rose from the official U.S. rate of 35 dollars per ounce in 1971 to almost 200 dollars by the end of 1974. In early 1975, the International Monetary Fund decided to disassociate the currencies of various countries from gold.

The price dropped to under 100 dollars in mid-1976, and has fluctuated up and down ever since. Disassociating paper money from gold has prevented sharp rises and drops in prices of goods in spite of the violent fluctuations in the gold price.

China's Renminbi has never been tied to gold or silver but is linked directly with various kinds of products. The socialist state controls the bulk of social products and sets their prices, which are not determined by a spontaneous market process. Thus it is in a position to maintain price stability without relying on gold or silver. Up till now China has not defined the gold content of her currency, set the official gold price or announced a minimum gold reserve, but she has maintained essentially stable prices since 1950.

Influenced by a fetishism for gold, many bourgeois economists consider it inconceivable that China's Renminbi, which doesn't have an official gold content and is not backed by a minimum gold reserve, should have guaranteed price stability. But there is nothing surprising about this. Though the country has not announced a minimum gold reserve, the various kinds of commodities at the disposal of her state commercial departments are worth many times the value of the money in circulation, which has been issued at an officially controlled amount. Whenever the amount of money in circulation exceeds market needs, the state commercial departments can withdraw the surplus by putting an extra quantity of commodities into circulation. This stabilizes both the value of money and the prices of goods. Reviewing the results of the First Five-Year Plan of the Soviet Union in early 1933, Stalin stated that the stability of Soviet currency was secured, first of all, by the vast quantity of goods held by the state and put into commodity circulation at stable prices.* This is also true of China.

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* Cf. J. V. Stalin, "The Results of the First Five-Year Plan", in *Problems of Leninism*, Foreign Languages Publishing House, Moscow, 1953, p. 534. — *Trans.*

There are also large reserves of commodities in capitalist countries. But they are scattered in the hands of many capitalists who, at any sign of trouble, would either go into hectic buying at high prices or dump their goods on the market at a fraction of their costs, aggravating price fluctuations. In a socialist country commodity circulation is organized by state commercial departments at government-planned prices while all speculation disruptive to the market, such as panic buying of goods and sales at exorbitant prices, is strictly banned by the authorities.

Many other economists hold that paper money must represent a certain amount of gold or silver, without which there would be no objective measure of its value. Practice shows that such a consideration is unnecessary. Instead of going through the medium of gold or silver, China's Renminbi is linked directly with various commodities, and its value is measured by an objective standard, namely, a synthesis of the price indices of certain categories of social products. During the revolutionary wars in China, initial experience was gained in the revolutionary bases in checking the value of money against price indices. At the founding of New China, the masses lacked confidence in the Renminbi issued by the people's government because they had suffered for more than a decade from the hyper-inflation in Kuomintang days. The synthetic price index (then called a "unit converted from commodity prices") of five commodities (grain, cloth, coal, cooking oil and salt) was used successfully as the measure to pay wages and repay debts. For years, China has been taking the synthetic price index of a number of major products as the basis for adjusting prices and determining the amount of currency to be issued, maintaining the stability of the value of her currency and the prices of goods. Using the synthetic price index of a number of products instead of the price of a single commodity (gold) as the standard for examining currency value, China has developed a new monetary system. Possessors of Renminbi do

not think of the gold or silver it can be changed into, but are interested in how much grain, cloth and other important means of consumption it can buy. China has no need for a gold standard.

Some comrades hold that the severance of paper money from gold is at variance with what Marx says about money in *Capital*. In fact, what he says there refers to the situation in his time. Anticipating a new stage in the development of the monetary system, he writes in *A Contribution to the Critique of Political Economy*:

> Paper money issued by the state and given a legal rate is an advanced form of the *token of value*, and the only kind of paper money which directly arises from metallic currency or from simple commodity circulation itself. *Credit money* belongs to a more advanced stage of the social process of production and conforms to very different laws.[1]

He also says:

> In the circulation of tokens of value all the laws governing the circulation of real money seem to be reversed and turned upside down. Gold circulates because it has value, whereas paper has value because it circulates. If the exchange-value of commodities is given, the quantity of gold in circulation depends on its value, whereas the value of paper tokens depends on the number of tokens in circulation. The amount of gold in circulation increases or decreases with the rise or fall of commodity-prices, whereas commodity-prices seem to rise or fall with the changing amount of paper in circulation.[2]

These elucidations by Marx fully conform to the actual conditions of money circulation today.

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[1] Karl Marx, *A Contribution to the Critique of Political Economy*, Lawrance & Wishart, London, 1971, p. 116.

[2] *Ibid.*, pp. 121-22.

The paper money issued by the state and given a legal rate is bound to be governed by the law which Marx describes here, namely, the amount of money in circulation must correspond to the needs of market circulation. If the amount of money issued exceeds the needs of market circulation by a big margin, the surplus money exerts a pressure on the market, causing a shortage of commodities or even compelling the state to raise the prices of certain undersupplied commodities. In particular, this will force up prices at the country markets which the state cannot easily control. Therefore, the state must balance its issuance of money with the needs in market circulation. To this end, it must balance its budget and, most important of all, should not try to make up financial deficits by issuing more money. At the same time, it must maintain a balance between income and payment in credit operations and between social purchasing power and commodity supply. In normal circumstances, a socialist country is fully capable of achieving a balance in all these respects through its national economic planning, maintaining stability in money and prices.

5. THE DEVELOPMENT AND DISAPPEARANCE OF COMMODITIES AND MONEY

Commodity and money in a socialist society must also go through a process of development involving both quantitative and qualitative changes. The qualitative changes generally accompany the changes in the system of ownership.

The first of these changes took place during China's First Five-Year Plan period. At that time capitalist industry and commerce and a multitude of individual peasants and handicraftsmen still existed, and the commodities produced were similar to those in the old society. However, the state economy had established leadership over capitalist industry and commerce by assigning processing jobs to them, placing orders for

their manufactured goods and making them dealers in state goods. It had also established leadership over the small individual producers through state commerce and supply and marketing co-operatives. Thus the products turned out were no longer at the complete disposal of the capitalist class in the service of the capitalist economy, but essentially under the control of the socialist state in the service of the socialist economy.

An even greater change in commodities began to take place when the means of production in China were put under socialist ownership. While commodity production and exchange in China are not totally free from vestiges or birthmarks of the old society, they are already different from those under capitalism, as we have explained in Section 2 of this chapter.

Commodity production and exchange will undergo much expansion in China. The mechanization and modernization of agriculture require special cultivation of certain crops in communes, brigades and teams as well as in various areas which would form different crop belts. There will be a large-scale division of labour between crop cultivation, animal husbandry, forestry and fishery, which will naturally be accompanied by their co-ordination, such as the interdependence between crop cultivation and animal husbandry. When that happens, labour productivity will rise several times, a dozen times or even scores of times and the bulk of products will certainly be sold as commodities. At the same time, a great deal of farm machinery, fuel, electricity, chemical fertilizer and pesticide will be needed for agricultural mechanization, while seeds, fodder and young animals will have to be supplied to production units. Cash income and payment will grow several or scores of times. Agricultural modernization cannot be realized without a radical expansion of commodity production and exchange.

In the course of modernization, commodity production and exchange will gradually change their nature. The development of industrial and agricultural production and socialist com-

merce may gradually lead to the replacement of country markets by state commerce and supply and marketing co-operative commerce or by agricultural-industrial-commercial combines which integrate the state economy with the collective economy. When collective ownership changes over to ownership by the whole people, giving rise to a unitary system of public ownership by the whole society, the exchange between the two systems of ownership will disappear accordingly, and all that remains will be the exchange of consumer goods between the economy under ownership by the whole people and the individual labourers plus the exchange between enterprises owned by the whole people. Finally, when the higher phase of communism is attained, the distribution of consumer goods will no longer take the form of commodity exchange, but gradually change over to direct distribution to the whole people according to their needs, and all that remains will be the exchange of products between enterprises owned by the whole people. The calculation of the expenditure of labour will be conducted purely for the purpose of accounting and will have nothing to do with the material interests of an enterprise or an individual, and money will no longer be needed as a medium of exchange.

Commodity, money, value and price are all historical categories. They are not material objects, but reflect the mutual relations between men through the medium of material objects. They arise in certain historical conditions and will fade out in others. When the higher phase of communism is attained, commodity, money, value and price will disappear as particular historical forms. When commodity and money die out, socially necessary labour time, the substance of value, will continue to exist and the calculation of labour time will remain an important task in economic work. Engels says: "Economic value is a category which belongs to commodity production and disappears with it..., just as it did not exist

before commodity production."[1] It is obviously a departure from Marx's standpoint to equate value with the substance of value in an attempt to prove that what Marx generally refers to as value will continue to exist in the higher phase of communism.

[1] Engels' letter to Karl Kautsky, September 20, 1884, in Marx/Engels, *Werke*, Dietz Verlag, Berlin, 1973, Band 36, S. 210.

Chapter VI

THE LAW OF VALUE AND CHINA'S PRICE POLICY

1. THE LAW OF VALUE IN A SOCIALIST ECONOMY

The objective laws of development of the socialist economy, including the law of value, must be observed in all economic work in a socialist society.

In his *Economic Problems of Socialism in the U.S.S.R.*, J. V. Stalin points out that the law of value operates in a socialist society because of the existence of commodity production and exchange. Like other objective economic laws, the law of value manifests itself when obeyed, but punishes when defied. The Soviet Union was once punished by the law of value; so were we in certain respects.

What is the law of value? It is generally stated in many political economy textbooks as follows:

The magnitude of value is determined by the amount of socially necessary labour time expended on a product, and commodities must be exchanged at their values. Thus the price of a commodity must correspond to its value.

Such a statement of the law is basically correct but incomplete. When the supply of a commodity meets the demand, its price roughly corresponds to its value. When there is an imbalance between supply and demand, its price varies from its value. Because there is often an imbalance between supply and demand, the correspondence between price and value is relative and temporary while the difference between them is absolute and frequent. Some comrades say that the law of value

is contradictory to the relation between supply and demand and that the imbalance between supply and demand undermines the law of value. This understanding of the law of value is incomplete. These comrades fail to see that, like every other objective economic law, the law of value is merely a tendency. In fact, the law of value operates through price fluctuations which centre around value. Everything is in a constant state of motion. Any law is a law of something in motion. To know the law of value in all its aspects, therefore, one must examine it in its state of motion.

The prices of commodities rise or fall with the constant changes in supply and demand. When supply falls short of demand, prices rise above values. This leads to a rise in production, a drop in demand and a situation where supply exceeds demand. Then prices drop below values. When that happens, the relation between supply and demand changes in the opposite direction: production drops, demand rises and prices go up again. Value and price, production and demand influence each other and are in a constant state of flux — such is the law of value in a state of motion. A thorough understanding of the law means to see it in a state of motion. Although price often varies from value, value is the centre of its upward or downward movement. Therefore, it would be an oversimplification of the law of value to think that it always requires a full correspondence between price and value.

When we speak of the function of the law of value as a regulator, we mean that price fluctuations lead to a rise or drop in the quantity of goods in supply and demand, which in turn leads to further price fluctuations; in the process the means of production and labour power are distributed and redistributed among the different departments of the economy. In a capitalist society, owing to anarchy in production, the production and marketing of all commodities are regulated spontaneously by the law of value through price fluctuations. The law of value regulates prices spontaneously to achieve a relative balance between supply and demand. This relative balance is made

possible by a constant destruction of balance (imbalance) or a constant fluctuation in balance. A major fluctuation makes some people rich but impoverishes or even bankrupts others.

In a socialist society, the means of production have been placed under public ownership and anarchy in production has been replaced by planned development. The production and distribution of all major products are conducted according to state plans, and their prices are fixed by the state. Thus we often say that the socialist economy is regulated by state planning. This statement is basically correct but should not be interpreted in a mechanical sense. Wherever commodity production and exchange exist, the law of value must operate. How does it operate? Stalin says that it "influences" production under socialism. In my opinion, "to influence" means "to regulate" in a particular manner. The difference is that the law of value, which is not likely to regulate production spontaneously under normal conditions, is often used by the state in a conscious effort to regulate production. Through its price policy, the state utilizes the law of value to regulate the production and marketing of all products. The state is the one that does the regulating through its plans. This is why we say state planning is the chief regulator in a socialist economy.

Why must a socialist country utilize the law of value to regulate the production and marketing of products? It is because, as long as commodity production and exchange exist, whether in the exchange of commodities between the state and the collective economy or in the labourers' purchase of consumer goods, fluctuations in price inevitably affect the material benefits of both parties in the exchange as well as the volume of the commodities produced and sold. Thus the state has to use its pricing policy to achieve a balance between supply and demand. In the exchange of products between state enterprises, price changes affect their profits. By our conventional practice, an enterprise is not affected by its profit rate because it turns over the bulk of its profit to the state, gets state compensation for its losses and generally pays its workers accord-

ing to a fixed scale. Thus it takes little interest in price changes. This state of affairs gives some comrades the impression that the law of value doesn't seem to function as a regulator. Such a view reveals a lack of respect for the law of value. The equal treatment of all enterprises regardless of their gains or losses is detrimental to the initiative of the enterprises and their workers, as well as to production and the workers' well-being. To make better use of the law of value, we should allow enterprises to keep part of their profit for business fund. This will link their economic performance with their material interests and those of the workers.

An economic unit under collective ownership, such as a people's commune or any of its subdivisions, assumes sole responsibility for its profits and losses. For it, state plans should serve only as suggestions, not orders. Once it fulfils its quota for sales to the state, a collective economic unit should be able to plan its own production, with, of course, guidance by state plans. The state only sets quotas for a few major products but not for most of the secondary farm and side-line products. It signs contracts with the collectives for the purchase and marketing of the secondary products at given prices, or buys them without contract. Thus the collectives produce and sell more when they find the prices favourable, and less or none when they find the prices unfavourable. Here the regulatory function of the law of value is obvious. The state should give proper orientation to production by utilizing the law of value through its pricing policy. Instead of giving arbitrary orders, it should make timely adjustments in prices by examining changes in labour expenditure on products and developments in supply and demand so as to fulfil its purchasing plans and ensure market supplies. For years, many of our comrades failed to utilize economic means and issued arbitrary orders in violation of objective laws. For this we have been punished by objective laws and sustained serious losses. We need to take firm steps to change this.

On the principle of "to each according to his work", the state pays wages to workers according to the quantity and quality of their work, while the workers use their wages to buy consumer goods. As there is a great variety in both consumer goods and individual needs, each person must be given the choice to buy whatever he wants. But who doesn't prefer the less expensive, higher quality goods to the more expensive, lower quality ones? Here again the law of value is clearly the regulator. The state can only use its pricing policy to adjust sales rather than forcing purchases. Rationing is necessary when supply falls short of demand as in the case of a few essential commodities, such as food grain and cotton cloth. Even in the sale of rationed cloth, consumers must still choose from an array of quality, colour and design. In this connection, prices are important to sales.

The principle of exchange of equal values should also be generally followed by state enterprises in their exchange of products. This will bring prices as close to values as possible to provide a sound basis for business accounting and the application of the principle of material interests. If the price of a certain product is much higher than its value, the enterprise which produces it receives an extra profit through an exchange of unequal values, while the enterprise which uses it has to pay a higher cost and loses part of its profit. In effect, some of the surplus goods created by the latter are transferred to the former through unequal exchange, affecting the accuracy of business accounting and the amount of profit to be retained by either enterprise. This is why state enterprises must observe the law of value when exchanging products, and must not create variances between prices and values by arbitrary decision.

That a socialist country must be good at utilizing the law of value is no longer a controversial point. However, there are still different views on whether the sphere of operation of the law of value can and should be restricted under socialism. Some

comrades hold that since the law of value is an objective law, it cannot and should not be restricted. I think otherwise. In my view, its operation can be restricted. As is generally known, the law of value is a law of commodity economy, and commodity production has always been based on the private ownership of the means of production and characterized by anarchy in production. Now that we have essentially abolished the private ownership of the means of production and eliminated anarchy in production, the decisive role in production has been taken over by something else, namely, the law of planned and proportionate development of the national economy and the state plans that reflect this law. As long as we make good use of the law of value consciously, it can no longer operate as a spontaneous regulator. This shows that the operation of the law of value is restricted. An important example of such restriction is the practice we've had for years of rationing some vital items of consumer goods to ensure that the people's livelihood is not affected by a rise in prices caused by the deficiency of these items.

Nor do I agree with the general statement that the law of value does not perform a regulatory function under socialism. In fact, we have often used it to regulate the quantities of many products to be produced or sold. Although the prices of these products are set by the state, if they show too much variance from the values, they will create a serious imbalance between supply and demand, forcing the state to readjust them by the law of value. This same law performs its regulatory function to a greater extent in cases where the prices cannot be fixed by the state by a single standard but are set through negotiations between producers and sellers (between the industrial and commercial departments). Over the years we have made too little use of the law of value and put too many restrictions on it. This has caused considerable losses to our economy.

Some comrades point out that since the law of value is an objective law, it is bound to operate *spontaneously*. This is

true in a sense. Even when the law of value is utilized by the state to regulate certain economic activities, it operates by itself, not by orders. But this doesn't mean that its operation is always unrestricted. In fact, its operation can be restricted by that of another objective law. Similar phenomena also exist in nature. For example, a kilogramme of iron and one of cotton dropped from an airplane at the same time should reach the ground simultaneously because they are drawn by the same amount of terrestrial gravitation. But they do not, because terrestrial gravitation is restricted by another objective factor — air resistance. The operation of the law of value is likewise restricted under socialism because, although value is the basis of price, it is not the only factor that determines price. Planned prices in a socialist country are influenced by the basic economic law of socialism* and the law of planned and proportionate development of the national economy. Under the conditions of socialism, the state consciously sets planned prices for major products in the light of the law of value and other economic laws, and these prices are not regulated by the law of value spontaneously. Of course, if we create too much variance between the planned prices of these products and their values in violation of the law of value, there will be a disruption in the balance between supply and demand with respect to these products, compelling us to change the originally planned prices. Therefore, when we admit that the operation of the law of value is restricted in a socialist society, we should not think that it has ceased to function, still less should we try to "restrict" objective laws by our subjective wishes — a course which will have us running against a stone wall.

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* J. V. Stalin defines the basic economic law of socialism as "the securing of the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society through the continuous expansion and perfection of socialist production on the basis of higher techniques". (See *Economic Problems of Socialism in the U.S.S.R.*, Foreign Languages Press, Beijing, 1976, pp. 40-41.) — *Trans.*

2. USE OF THE LAW OF VALUE

Under the conditions of socialism, the state is in a position to utilize the law of value consciously because it sets the prices of major products. But this is no easy job. Many of our comrades used to think that the price of a product is closer to its value in a socialist country than in a capitalist country because the socialist state maintains a balance between supply and demand through its planning and so keeps prices free from the impact of any imbalance between supply and demand. Experience proves the situation to be quite the contrary. The truth is that prices may vary from values to a greater extent in a socialist country than in a capitalist country. In a capitalist country, variances are automatically eliminated by the law of value. In a socialist country, the authorities taking a bureaucratic attitude may ignore the imbalance between supply and demand and fail to adjust prices, causing the difference between price and value to last a long time. Not until the situation becomes so severe that production is menaced will the state be compelled to adjust prices.

While handling prices, we must pay close attention to the law of value. Take the price parities between industrial and agricultural products. The "scissors" difference between them, a legacy from the past which cannot be eliminated speedily, remains a serious handicap on extended reproduction in agriculture. In the last twenty years and more the purchasing price for farm produce has been doubled and the "scissors" difference seems to have narrowed. But agriculture is easily affected by natural conditions, particularly the soil. Although there has been much improvement in the conditions for agricultural production, labour productivity has increased very little and production costs have risen with the growth in output in many areas and units. Things are different in industrial production, where labour productivity rises much faster and higher productivity leads to lower costs. This calls for a constant readjustment of the price parities between industrial and agricultural products

along with the growth in production. There were few readjustments in prices during the ten chaotic years of the Cultural Revolution. The price of food grains remained unchanged for twelve years. The "scissors" difference between agricultural and industrial prices, which had once narrowed, widened again. The situation in grain production is like this: In some of the high-yielding areas, a higher output doesn't bring a bigger income because of the rising costs of production, and extended reproduction is being financed from the earnings of enterprises run by communes, brigades or teams. In some of the low-yielding areas, the collectives are earning hardly enough to maintain even simple reproduction, which is being maintained by cutting the pay for the peasants to a level where they cannot meet their minimum requirements and have to fall back on their private plots and household side-lines. All this tells us that, to achieve a faster rise in agricultural production, we must implement the agricultural policies of the Party and, in particular, make up our minds to readjust the prices of industrial and agricultural products, narrow the "scissors" difference between them, and gradually effect an equal or nearly equal exchange. In 1979, the government decided to raise substantially the purchasing prices for agricultural products. This will add much impetus to agricultural production.

To prevent an anarchic economic development, the socialist state must strengthen its price planning and control. But there are tens of thousands of social products in no fewer than a million grades, specifications and varieties, for which the state can hardly set prices on a unified basis. The prices of major products which have been placed under watertight state control, like grains and coal, generally tend to be too low because of a preoccupation with stability, while secondary products beyond state control are sold at higher prices and yield more profits. In agriculture, prices are usually the lowest for products subject to monopoly purchase by the state, higher for those to be purchased by the state by assigned quotas, and the highest for those open to free marketing. In industry, most of

the mining enterprises yield low profits and not a few of them are unwilling to expand production because they are operating at a loss, while the processing enterprises make higher profits and grow so fast that they frequently overfulfil state targets. Such developments do not conform to the orientation for the development of production set by the state. Instead of utilizing the law of value, however, we used to issue administrative orders to check such developments. Authoritarianism prevailed in agriculture — the areas to be sown with various crops were designated by arbitrary directives, cash crop growers were instructed to achieve self-sufficiency in food grain, and the collectives were not allowed to diversify their economy. For years, therefore, the output of cash crops dwindled, the peasants earned less and less, and grain output showed little increase. In industry, people were asked to make bricks without straw because the supply of raw and processed materials, fuels and power lagged far behind production needs, while some manufactured goods were overstocked. All this shows that once the law of value is violated, no state plan can function as a regulator.

The variance of prices from values prevents enterprises from improving their business accounting. Mao Zedong once said that the law of value is a great school in which tens of thousands of our cadres may learn how to handle the socialist economy. In the business accounting under socialism it is not yet possible to work out directly the socially necessary labour time to be expended on each kind of social product. Such time has to be measured through the medium of costs, profits and prices, all of which fall under the category of value. Therefore, our business accounting can only achieve proper results through a maximum correspondence between price and value. In particular, after the enterprises are allowed to retain part of their profits, they will pay greater attention to the prices of their products in order to protect the fruits of their labour and prevent their profits from being transferred to others through unequal exchange. If the prices are quite different from the

values of products and the figures for costs and profits are distorted, the enterprises will have much difficulty conducting business accounting and improving management, with some making gains at the expense of others.

Unreasonable pricing will also make it difficult for us to run the economy by economic means. Many comrades are studying ways to use the profit norm or a profit retention system to get enterprises interested in improving their management. But since the prices of many products are obviously at variance with their values, the profitability of an enterprise is often determined not by its management but by pricing. As stated earlier, low prices are set for many products which are urgently needed by the state and high prices for those which are not. In these circumstances, the use of profit as the lever for a reform in the system of economic management will result in a decrease in the quantity of the former and an increase in that of the latter. This will further unbalance the economy. Thus it will be difficult to reform the system of economic management without a readjustment of prices.

But it is no easy job to readjust the prices which have been in a state of utter confusion for more than a decade. Readjustments will change the proportions by which the national income is distributed between the state, the collectives, the workers and the peasants. If one gets more, the others get less. The state needs more accumulation and so do the collectives, while both workers and peasants expect improvements in their living standards. Price readjustment does not alter the overall national wealth, but only changes the proportions by which it is distributed among these four sectors. If production doesn't grow, it is difficult for prices to be readjusted in a way that satisfies each sector. Hasty steps to raise the price of farm produce will affect state revenue as well as the workers' living standard, and a corresponding rise in workers' wages will further diminish state revenue and throw the national budget off balance. This will compel the government to issue more banknotes, which will affect price stability. The conclusion is

that price readjustments can only be carried out step by step in the course of industrial and agricultural growth and should be conducted in a way that promotes the latter.

3. PRICES AND CHINA'S PRICE POLICY

Since China launched her First Five-Year Plan in 1953, the prices of all major commodities in the country have been set by the state in a planned way instead of taking shape spontaneously through market competition. This gives people the wrong impression that the state sets prices arbitrarily without observing objective laws. Of course this is not the case. Prices in a socialist economy remain the monetary expressions of values of commodities. When the state sets the price for a commodity, it must first give consideration to the amount of socially necessary labour expended on its production so that its price roughly represents its value. For various reasons the prices of certain commodities are slightly higher or lower than their values at one time or another. On the whole, however, our price policy follows the fundamental principle that price must roughly correspond to value.

Many comrades think that since the socialist state plans and controls the prices of all commodities and can generally free them from the influence of supply and demand on the market, it can easily bring prices into conformity with values. Things are not so simple. First of all, it is not easy to accurately work out the ever-changing amount of socially necessary labour expended on each product, which contains not just the living labour put in by one enterprise but the labour accumulated in the material means consumed in the course of production. Secondly, prices are a concentrated expression of the contradictions among different social groups which, in their own interests, wish to see certain products sold at prices higher or lower than their values. The great variety of social products makes it impossible for the state to plan or control all of them

strictly. Finally, the unreasonable prices passed down from history cannot be changed in a short time. For all these reasons it is common for price to differ from value.

Although price fluctuations do not raise or lower the national income, they change its distribution among different social groups. Contradictory demands for higher or lower prices are often raised by different parties, such as those raised by state industry and collective agriculture, by the state and the working people, by producers and users, by producing areas and consuming areas, and by industrial departments and commercial departments. While setting or readjusting prices, price control authorities should take into consideration the interests of all parties and correctly handle the contradictions among different organs and social groups. They should handle the price policy in a way that is conducive to the growth of production and a sure supply of commodities, to a reasonable distribution of the national income among the state, the collectives, the workers and the peasants, to a fair and accurate business accounting among enterprises which would encourage them to improve their management, and to the consolidation of the socialist economy and the struggle against the spontaneous forces of capitalism.

In the past ten years or more, unreasonable prices have appeared because of the shortcomings and errors in our work. Agriculture is the foundation of the national economy, yet agricultural growth lags behind industrial progress. The prices for agricultural products are too low and the earnings from many of them can barely finance simple reproduction or cannot even meet this purpose in times of natural calamities. The Party Central Committee and the State Council have decided on gradual increases in the purchasing prices for farm products, particularly those for grain, so that peasants in high-yielding areas may increase their production as well as their income while those in low-yielding areas will also be able to accumulate essential funds and adopt some measures to improve production. In addition to grain prices, the purchasing

prices for cotton, oil-bearing seeds, sugar cane, sugar beet, meat, fish, poultry and eggs are being raised correspondingly so that the peasants will be willing to produce and sell more. This will raise the income of the peasants and improve the supply of farm produce to urban residents. It is of course impossible to eliminate the "scissors" differences between industrial and farm prices through a single readjustment. The question will have to be solved through years of endeavour.

While it is fully necessary to raise farm prices, the contradictions between workers and peasants which may result from such a step must be handled correctly. Rises in farm prices bring in their wake a rise in the prices of foodstuffs and possibly in those of light industrial products made from agricultural raw materials. This affects the livelihood of the workers, particularly those getting lower wages. In the first ten years and more after the founding of New China, we came across this problem several times when we raised grain prices. To solve the problem, the state raised only the purchasing price of grain but not its selling price. Thus the purchasing price exceeded the selling price and the state had to cover the difference by spending several thousand million yuan a year. The situation was similar with non-staple foods like meat and eggs. Food grain was sold not only in the cities but also in the cash crop areas. After the purchasing prices for grain were raised, production teams in grain-producing areas charged more for the grain allocated to their members as a matter of course. Thus peasants who produced grain paid more for it while those in cash crop areas who did not produce it paid less for the commodity grain provided by the state. That was obviously unfair. To solve this contradiction, we raised the prices of food grain sold to rural inhabitants and placed them on a par with the purchasing prices in 1964. Peasants in cash crop areas didn't mind paying for their food grain at the same price as the grain producers on account of the higher purchasing prices for cash crops. But this created another problem, namely, the grain sold to peasants in cash crop areas, like the

grain allocated to grain producers, now became more expensive than that sold to urban workers. In other words, grain was generally cheaper in the cities than in the countryside. Thus state grain shops in city suburbs sold grain to workers at lower prices and to the vegetable growers there at higher ones, creating a new contradiction between workers and peasants. At the dinner table of a family which included both worker and peasant members, you would find grain bought at two different prices.

To solve this contradiction, the state raised the prices of grain sold to urban residents in 1965, putting the selling prices in cities and towns on a par with those in rural areas. Raising the selling prices of grain affected the workers, especially those in the lower income brackets. It was suggested that the fiscal gains from the price increases be added to the wage funds and used for wage increases. But the workers' families varied in size and, for a large family facing financial difficulties, a slight increase in wages could hardly cover the additional expenses on grain. In the absence of a definite plan for wage increases, the state added a provisional grain subsidy to wages. Today the same contradiction has appeared as a result of the recent state decision to raise the purchasing price of grain. It seems that an increase in the selling price of grain should be effected simultaneously with a universal rise in wages made possible by advances in production, so that the contradictions between workers and peasants may be solved step by step. A gradual solution should also be found to similar problems posed by non-staple foods like vegetables, meat, fish, poultry and eggs, whose prices are being kept down by much state subsidy.

Some of the light industrial goods made from agricultural raw materials, such as cotton cloth and sugar, yield fairly large profits. After the prices of their raw materials are raised, the state may lower the tax rates so that the producers may make roughly the same profits without raising the selling prices of the products. As for products which do not yield much profit,

their selling prices should be raised slightly after the rise in the prices of their raw materials. Meanwhile, the selling prices of many light industrial goods made from industrial raw materials, especially those made from chemicals, can be lowered as their raw materials become cheaper. In the course of readjusting the prices of light industrial goods, therefore, we may keep the general price level as it is by balancing increases with decreases.

The prices of goods from heavy industry are also far from being reasonable. Generally speaking, the prices of raw materials, especially mineral products, are too low while those of processed goods are too high — a situation contradicting the state orientation of industrial development which provides for a priority growth in the fuel, power, raw and semi-processed material industries. It is necessary to raise the prices of coal and other minerals and lower the prices of processed goods. Most of the heavy industrial plants in China were built after liberation. In a given period after commissioning, their products were highly priced because of the high costs of production. In the First Five-Year Plan period (1953-57) the costs came down considerably but the prices dropped little, accounting for a high profit rate. In the next two decades, due to the shortcomings and errors in our work, costs dropped little and prices remained high. Through the forthcoming readjustments, the costs of heavy industrial goods can be slashed and their prices lowered accordingly. Lower prices for heavy industrial products, especially for chemicals and engineering goods, will help reduce the costs of industrial and farm production and save investment in capital construction, contributing much to the nation's economic growth. Comrades in financial departments have misgivings about this because profits from heavy industry have always been the main source of state revenue and they are afraid that lowering the prices of its goods may unbalance the national budget. Actually this is unlikely because, in the first place, profits for producers of chemicals and engineering goods may not drop at all if there

are smaller drops in prices than in costs and, secondly, producers of other goods will benefit from such drops in prices and increase their profits. Construction departments using the cheaper products will also be able to cut down costs and spend less. All in all, state revenue will not be affected.

The general criterion for price readjustments in a socialist country should be the approximation of prices to values. But to regulate supply and demand, the state may set slightly higher prices for certain goods to encourage their production and slightly lower ones for others to restrict their production. To limit the consumption of products like cigarettes and liquor, the state sets their prices much higher than their values and, by means of heavy taxation, allows the producers only a general rate of profit. What merits a special study here is the proper way to handle the "differential income" arising from differences in natural conditions, something equivalent to the differential rent defined by Marx. As stated earlier, the farm prices in China are still too low. In areas where natural conditions are poor, the state payment for its purchases either cannot cover production costs or cannot provide a profit. This is clearly an obstacle to agricultural growth. In areas where natural conditions are better, it should have been possible to earn a "differential income" and build some accumulation. But these are usually densely populated areas with a limited amount of arable land. To purchase more grain from there, the state asked for a maximum multiple cropping index, e.g., three crops were to be planted instead of two in a year, or two crops in a year instead of three every two years. This has resulted in higher production costs. Given the farm prices, the increased yields brought no additional income. In view of this, the state has raised the prices for purchases beyond the regular quotas. This measure is necessary for now because it encourages the communes, brigades and teams in high-yielding areas to produce and sell more so that the national grain purchase plan will be fulfilled with better results. But while it brings more money to the

well-off collectives, it doesn't help the low-yielding ones and widens the differences between the two. In the course of agricultural growth, it will be necessary to lower the prices of the agricultural means of production still further, raise the prices of the grain purchased by the state within the regular quotas, and gradually cancel the higher prices paid for purchases beyond these quotas, so that the collectives working under poor natural conditions may also increase their income while the high-yielding ones enjoying good natural conditions may be assured of a higher income from a higher output.

As discussed earlier, because of the different natural conditions and different rates of labour productivity, it is impossible to narrow the differences between the well-off and poor areas through readjustments of industrial and farm prices. By raising the purchasing prices for agricultural products and lowering the selling prices of the agricultural means of production, we can narrow the differences in pay between workers and peasants, but not the differences in pay between well-off and poor areas in the countryside. When the purchasing prices for agricultural products are raised, the high-yielding collectives will get more benefits because they have more to sell. Likewise, when the selling prices of the agricultural means of production are lowered, these same collectives will gain more because they have more funds. The question of narrowing the differences between the well-off and the poor through price readjustments is a subject worthy of earnest study. By a proper handling of matters like agricultural investment, taxation and loans, the state may be able to help the collectives in poor areas to increase their income, accumulate funds and change their backward state by developing agricultural production and starting their industries on the basis of local resources.

The question of a "differential income" also exists in the mining industry. For example, coal seams with a thin overburden are suitable for open-cut mining while those with a thick one require deep mining. Some of the seams are thick

and contain good coal with a low ash content; others are thin and contain poor coal with a high ash content. The coal prices are low and most of the mines are being run at a loss. After the coal prices are raised, some high quality mines may receive much profit, while it will still be difficult for the low-quality ones to avoid losses. Since coal is the food of industry, we cannot raise its prices sharply all of a sudden. Then how can each of the coal mines recoup its outlay and earn a reasonable profit in normal production conditions? There are two possibilities. One is through a tax policy, namely, to impose a progressive tax on producers of good coal and subsidize producers of poor coal. The other is through a price policy, namely, to set different purchasing prices for different mining areas on the basis of their resources. The coal from all mines will be purchased by coal companies and sold at standard prices for the different grades, which are set according to the average prices for the coal from different mines. The first method may be more practicable if coal supply contracts are to be concluded directly between mines and users.

In China the use of coal is encouraged while that of petroleum is restricted. As for the prices of petroleum, we may set them by adding profits to the production costs of low-yielding wells so that high-yielding wells may bring extra profits, which should nevertheless be turned over to the state in taxes as a differential income. After the enterprises begin to retain part of their profits, it will be necessary to make a strict distinction between taxes and profits so that people at low-yielding wells will not quarrel with those at high-yielding wells over the differences in profits.

Apart from handling the "differential income", our price policy should also take care of the price gaps between different localities, which were very wide in old China. In out-of-the-way hilly areas, especially those inhabited by national minorities, the prices of agricultural and animal products were extremely low and those of industrial goods unbelievably high. Since the founding of New China, the state has been narrow-

ing the price gaps between different localities to raise the living standards of peasants and herdsmen. As transportation improved, state commercial agencies and the supply and marketing cooperatives gradually raised the purchasing prices for agricultural and animal products and sharply reduced the selling prices of industrial goods in these areas. Since 1964, the state has lowered the extremely high prices in northwest China by using its gains in coastal areas to subsidize consumers in the remote hinterland. It was a time when the economy was turning for the better, making it possible to cut the prices of many manufactured articles of daily use. But the state maintained their prices in the coastal areas and used the increased profits to subsidize their sales in remote areas. Although the freight charges for table salt and coal going to inland areas were even higher than the production costs, the state put a ceiling on their prices there and subsidized the commercial departments for the losses. In short, our price policy takes into consideration the interests of all concerned and so conforms to socialist principles.

4. REFORMING CHINA'S PRICE CONTROL SYSTEM

Prices in China show much confusion and serious variances from values. As mentioned above, major products urgently needed by the state are priced too low while secondary or overproduced goods are priced too high. The confusion in price policy runs counter to the need for a planned development of the national economy. Without studying the function of the law of value seriously, we have not been good at utilizing the law in practical work but have tried to solve our problems by administrative methods alone. Things like the compulsory designation of areas to be sown to different crops and the arbitrary "rationing" of consumer goods have hampered a rise in production and in the people's well-being.

Two things account for the present price confusion. In the first place, chaos in the ten years of the Cultural Revolution contributed to imbalances in the economy, including a serious imbalance between supply and demand in the case of many products, making it impossible for the price control authorities to perform their normal functions. Secondly, our price control system needs serious examination. We should make more use of the law of value and other objective economic laws and adopt fewer administrative measures in managing the economy. The state set standard prices for all major products and worked out a unitary method of pricing many of the secondary products. As a result, the prices varied far from their values for many years and could not be readjusted in time. This situation could have been avoided or remedied speedily if we had made good use of the law of value and eased price controls.

Grain supply has long been short of demand. For a number of years, while grain prices were not raised, collectives in cash crop areas and even mountainous and pastoral areas were forced to produce grain for their own use. The result was a drop in the output of cash crops, forest products and animal products. The dwindling income of the peasants and herdsmen prevented them from taking any measure to boost grain production. Grain production grew at a slower rate across the country and so did the production of pork and eggs. The collective agricultural units are quite responsive to prices because they are responsible for their own profits or losses, and low prices inevitably dampen their production enthusiasm. Some other socialist countries produce two or three times more grain and four or five times more meat, eggs and milk than China does in terms of per capita output. It is true that they have better production conditions, but the higher prices of their agricultural products are also an important factor contributing to faster agricultural growth. To ensure the supply of food grain and non-staple foods at relatively low prices, every year the Chinese government has to spend several thousand million yuan subsidizing the sales and much foreign

exchange for imported farm products like grain and cotton. If the money were used to raise the purchasing prices of farm products and increase state aid to agriculture in a planned way, the results would have been better.

The rationing of some of the daily necessities is necessary when they are in short supply. But there are some alternatives. For example, if the prices of meat, eggs and vegetables are raised slightly, their supply will grow sharply. The same is true of sugar and cooking oils if better prices are paid for oil-bearing crops and sugar cane and beets. With these measures we can immediately meet the market demands for these products. The rise in prices may be coupled with corresponding wage increases so that they will not affect the livelihood of people in the lower income brackets. The rationing of some daily necessities, such as soap, only leads to unnecessary hoarding and a man-made shortage. In a normal economic situation where the purchasing power of society roughly corresponds to commodity supply, we should utilize the law of value more often and ensure a balance between supply and demand through price readjustments, while measures like requisition purchases, purchases by assigned quotas and rationing should be avoided wherever possible.

It is actually very difficult, and sometimes disadvantageous, to enforce a unified price control by sheer administrative means. It is therefore necessary to grant a certain measure of autonomy in price control to local governments, the price control authorities at different levels, and individual enterprises. While the state has to set the standard price of a few vital products, maximum and minimum prices may be assigned for some of the secondary products, or the prices may be adjusted flexibly within a prescribed range by local governments and price control authorities according to actual conditions. Some products may be purchased at negotiated prices. For example, after fulfilling its grain purchase plan, the government may decide to buy more grain at a price higher than the standard one but lower than the country market price, and it will

naturally buy more where it is cheaper. Some products may be sold at prices higher than the planned state prices. For example, while consumers get their rations of cooking oil and meat at relatively low state prices, they should be free to get more at higher prices from state shops. The communes and production brigades and teams should be allowed to sell their vegetables, fruits, meat, fish and eggs in town at their own prices within bounds of state regulations. As the vegetable crops are often affected by natural conditions, it is not so easy to keep the balance between supply and demand in green groceries. When their prices are too high, the state may stabilize them and protect consumer interests by bringing in more from other parts of the country. When their prices are too low, the state may raise the purchasing price and send the surplus supplies to other places to protect the interests of the peasants.

Many comrades have misgivings about a relaxation of state control over prices and a more frequent use of the law of value to regulate the quantities of products to be made or sold, mainly because they are afraid that prices will go up and can never be stable. It is undeniable that less control may lead to a temporary rise in the prices of some commodities. Overall, however, price stability is achieved by keeping a balance between the amount of money in circulation and the actual need on the market. Such a balance depends first on a balance between the government's revenue and expenditure, between its credits and payments, and then on a balance between the social purchasing power and the supply of commodities. These balances are closely related to each other. As long as a socialist country maintains these balances through state planning, it can make full use of the law of value without affecting the stability of the market and of prices.

Of course there can be exceptions. Between 1960 and 1962, because of the slumps in China's industrial and agricultural production, both state revenue and the supply of commodities dropped sharply and the amount of money in circulation far

exceeded market need. The soaring prices at the country markets forced up the state controlled prices of some products. To stabilize the prices of major consumer items, we had to ration more of them. In addition, we sold some consumer goods at higher prices, which were actually neither too high for people to afford nor too low to guarantee a steady supply. While the state continued to purchase farm products on a requisition basis or by assigned quotas at its official prices, it also acquired these products at prices negotiated with the peasants, which were higher than the official prices but lower than the country market prices, and sold them on the urban and rural markets by adding a commission. These measures not only ensured a secure life for workers and staff in the lower income brackets but also met the needs of those in the higher income brackets. They provided successful examples of making flexible use of the law of value.

From 1962 to 1965, we withdrew several thousand million yuan from circulation through measures such as selling certain commodities at higher prices to re-establish a balance between the money in circulation and the market need for it. With an all-round improvement in the economy, the supply of commodities increased, and country market prices soon dropped to the level before 1958. The higher prices referred to above also gradually came down to the level of official prices. Many of the rations were abolished and replaced by free sales, while the rations that remained, such as grain and cloth, became basically sufficient for consumer needs. Higher-priced goods found few customers and had to be sold at original prices, and the system of purchases and sales at negotiated prices finally came to an end. This experience shows that even in hard times it is possible to utilize the law of value to overcome economic difficulties. If, instead of using the law, we had relied solely on such administrative means as state purchases on a requisition basis or by assigned quotas and the rationing of consumer goods, the people would have had to endure more

hardships and the economy could not have taken a quick turn for the better.

The present supply of commodities is much better than that in the early 1960s. In most areas, farm and side-line products are being sold at country markets at prices close to the official ones. From now on we may gradually cut state purchases on a requisition basis or by assigned quotas and change them to purchases and sales at negotiated prices. Except for major items like grain, cotton and oil-bearing crops, it doesn't seem necessary to set official prices for farm products. The supply and marketing cooperatives may buy more where the prices are lower and less or none where they are higher to balance surpluses with deficiencies in different areas. Rural people's communes may also sell their surplus produce after fulfilling the targets for sales to the state, plus their fruits and melons, vegetables, meat, fish, poultry and eggs, by setting up their own stores in nearby cities and towns and offering them to customers at their own prices. When great advances are made in agricultural production we should gradually abolish compulsory state purchases and change over completely to purchases at negotiated prices. Of course, this doesn't mean the state will give up all control. It should take various economic measures to promote the production of certain commodities and regulate prices by balancing surpluses with deficiencies in different areas. As for grain, its prices are supported by government subsidies even in many capitalist countries. The same thing has been true for China and may have to remain so for quite some time.

The prices of heavy industrial products in China are far from reasonable. Coal is in short supply and, because of its low price, many coal mines have been losing money for years. Engineering goods have been overstocked for a long time. But because of their high prices and profitability, the output quota for 1978 was overfulfilled by 100 per cent. The great variety of such goods makes it difficult for the state to set standard

prices for all of them. The supply departments should be allowed to purchase the overstocked goods in limited quantities at lower prices and sell them freely, and to purchase and dispose of the sub-standard ones at lower prices, or even to reject them. If goods urgently needed by the state are being sold at too low a price, customers should be able to purchase them at higher prices without having to go through bureaucratic formalities for approval at all levels. Prices for goods produced in small batches may be agreed upon between sellers and buyers through negotiation. Except for a few products under state monopoly, prices should also be negotiated for products from small-scale local industries and commune-run industries. Many commune-run factories are charging too much for their engineering goods because state control over such goods is so strict or the procedure for getting them is so complicated that users have to buy them wherever they can. The situation will change as soon as the state provides a free supply of all overstocked or abundant goods.

In summary, while handling prices, we should learn to utilize the law of value and give wider scope to its role as a regulator. This will help us eliminate, in a relatively short time, the glaring abnormality of prices varying radically from values and of a price policy at odds with state plans. To recapitulate some of the points made in this chapter, since there is a great multitude of farm and side-line products and manufactured articles, it is unnecessary to set uniform prices for the numerous secondary products. The communes should have the right to set the price of goods they sell to urban residents. The prices of certain manufactured articles should be set by the factories themselves. Consumers should be given a free choice so that the cheaper and better goods will sell well while the more expensive and poorer ones will be difficult to market. This will encourage the advanced, spur on those lagging behind and benefit consumers. Harvests vary from area to area and so should the prices of farm and side-line products. The commercial

departments may buy more from bumper harvest areas and less or none from areas with crop failures. The flow of certain products from the former to the latter areas would be a good thing. It is sheer departmentalism to place uniform price tags on products and enforce a blockade against other areas for fear of an outflow of products — a practice which does no good to the producers or consumers. A free circulation of products will satisfy the needs of the recipients and encourage the senders to expand production and increase their income. Rigid control over prices without any competition hinders the exchange of goods. It should be changed because it doesn't help consolidate socialism but hinders socialist economic development.

Recently some comrades have asked whether it is wise to maintain price stability and avoid inflation. They point to the fact that controlled inflation is being tolerated in capitalist countries and an annual price increase of a few per cent pushes production forward. In my opinion, the situation in our country is different from that in capitalist countries. In their case, overproduction calls for a gradual rise in prices to increase the sale of commodities as a means of averting or alleviating an economic crisis caused by overproduction. In China most of the commodities are in short supply and the imbalance between supply and demand will become more serious if the prices are allowed to rise without restraint. Moreover, rises in price call for an increase in wages, and if both prices and wages were always on the increase, people would become compulsive about prices and wages, affecting the unity and stability of relations among the workers and between the workers and peasants. Of course, stabilizing prices doesn't mean that the prices of all kinds of commodities will have to remain unchanged. The present price of many items are quite unreasonable and should be readjusted. But readjustments should be effected through both increases and decreases so that the general price index will be stabilized as much as possible. To this end, the state must maintain a balance between revenue and ex-

penditure and between its credits and payments as well as a balance between the money in circulation and the market need for it so as to avoid inflation. This has been our policy for years and it should be upheld in any reform of the price control system.

Chapter VII
PLANNING THE SOCIALIST ECONOMY

1. HOW TO PLAN THE ECONOMY

A socialist country can and must plan its economy because the means of production are under public ownership and the economic sector under ownership by the whole people leads the rest of the economy.

To satisfy the rising material and cultural requirements of its population, a socialist country must ensure a speedy and proportionate growth of production and a rational distribution of products for both consumption and reproduction. To this end, it sets up special agencies to keep track of the GNP and the national income; work out a proper ratio between the consumption fund and the accumulation fund; distribute the accumulation fund, mainly the capital investment fund, among departments engaged in material production, intellectual production and other pursuits; and distribute the consumption fund among different sections of the population comprising mainly workers and peasants. In other words, it has to provide material guarantees for national construction and the people's livelihood and see to a general balance between supply and demand.

The socialist state should scientifically work out a single national economic plan, without which it cannot organize the nation for a struggle to achieve its objectives. However, this doesn't mean an all-inclusive plan setting arbitrary targets for the grassroots, which has proved impracticable.

It is impracticable because, first of all, there are millions of products and even a greater number of varieties and specifications of these products which cannot be covered by a single plan. In China, only a few hundred products, accounting for a little over half of the GNP value, are handled directly by the State Planning Comission. While the commission can work out accurate figures for a few dozen products, it can only make rough estimates for the rest. Even in the case of the former, the figures cannot possibly cover all varieties and specifications, which can only be determined by business agencies or between supplier and user. Since production and demand change from time to time, especially where varieties and specifications are concerned, meticulous planning by higher authorities creates difficulties in balancing supply with demand.

Secondly, productive forces in China, especially in agriculture, remain at a low level and over 80 per cent of the population belong to collective economic units. Being responsible for their own profits and losses, the collectives must consider how to earn more. Instead of setting arbitrary production quotas for them, the state should let them decide what and how much to produce with reference to the general targets for the whole country. Government authorities used to assign crop acreages and even cultivation methods to the collectives, making it difficult for them to grow crops best suited to their conditions. Production declined and the peasants' income dropped, dampening their enthusiasm. The state should announce farm production targets only as suggestions, subject to discussion at all levels and to final decision by the producers. Experience shows that the nation's agricultural targets can be fulfilled if they are based on actual conditions and consultation with the collectives.

China's economic planning system was copied from the Soviet Union's in the early 1950s. Before the changeover to socialist ownership of the means of production, the socialist state economy was supplemented by a vast number of capitalist

and state-capitalist (state-private) enterprises and small businesses which provided a great variety of products for consumers and many channels for commodity circulation. This lent much flexibility to the economy and made it relatively easy to meet market needs. After the basic completion of socialist transformation in 1956-57, especially after the merger and reorganization of former private businesses in 1958, there was a sudden decrease in the number of production units and commodity circulation channels. State commercial agencies bought and sold the products of state industrial enterprises much in the same way as they handled the goods which capitalist enterprises turned out on government orders before socialist transformation. The result was a sharpening of the contradiction between production and consumer demand. As for capital goods, they were handled even more rigidly because people generally subscribed to the theory that, as means of production, they were non-commodities and should not be circulated through the market. Many of the goods did not meet actual needs or were made according to incorrect specifications. Some were overstocked, others in short supply. People gradually realized that, without a change in this situation, socialist economic planning could hardly be effective.

It goes without saying that state enterprises, which are owned by the whole people, are directly guided by state planning. But they too must be allowed some leeway in carrying out state plans. Most of the production and sales plans worked out by the state for its enterprises should likewise serve as suggestions. The authorities may discuss them with the enterprises which should make their own decisions. Centralized control over the income and expenditure of enterprises should be eased to give them more financial power and responsibility. To ensure steady supplies and market stability, the state will have to continue its monopoly purchase and marketing of products vital to the economy and the people's livelihood, such as iron and steel, coal, grain and cotton cloth. On the other hand, it should gradually relinquish its monopoly

over the many articles of daily use and open them to free purchase and marketing by commercial agencies. As things now stand, the commercial agencies have to purchase whatever is produced and sell whatever is purchased. The process should be reversed to base purchase on market demand and production on purchase. The commercial agencies should be given the right to buy or not to buy from the producers, who should also be free to market their goods without going through these agencies.

Measures are being taken in China to expand the rights of enterprises to make their own decisions. When the reform goes into effect, what if an enterprise doesn't produce according to state plan, unbalancing supply and demand? There can be a number of remedies: (1) Taxation — more taxes on production to be restricted, and less or none on production to be encouraged. (2) Pricing — lower prices for products to be restricted, and higher prices for those to be encouraged. (3) The provision of supplies — ample supply of raw and processed materials, fuels and electricity for enterprises encouraged to expand production, and less or none for those which should slash or stop production. (4) Investment — more capital investment in industries and enterprises to be expanded, and less or none in those to be restricted. (5) Credit — more loans at lower interest rates for industries and enterprises to be expanded, and less or none for those to be restricted. Wherever possible, the government should use economic leverages to regulate the economic operations of enterprises and refrain from resorting to administrative means to interfere in such operations. By doing so the authorities may avoid wishful thinking and overcome bureaucracy while the enterprises will not do things just as they are told but seriously examine market demands, improve their management, and try to achieve better economic results by using less human and material resources.

The collectives should be granted the right to manage their own affairs. On this basis, the state will be able to ensure the fulfilment of various production quotas chiefly by utilizing the

law of value through price adjustments. At the time of the founding of New China, grain and other farm produce were in sufficient supply and there was no need to ration them. After the First Five-Year Plan got underway in 1953, population growth in industrial cities and towns compelled the state to purchase grain and non-staple foods on a requisition basis or by assigned quotas. This was necessary at the time because it solved the problem of feeding the population in cities, cash crop areas and grain-deficient areas. But too much was purchased in some years and the peasants were disgruntled. For a time, the grain question was on everybody's lips in the countryside and the state's monopoly purchase and marketing of grain became a topic of discussion in almost every rural household. It will be impossible to abolish such purchases in the near future. But their negative effects are already clear. Because of excessive purchases in some areas, peasants producing grain do not get enough for themselves, and those raising pigs seldom have any meat. This affects their enthusiasm and, consequently, the growth of farm production, making the supply to cities increasingly difficult. What we should do is to learn to regulate farm production by the law of value. If we do so, however, will there be rises in farm prices? Very likely. But such rises will help develop farm production. Purchasing prices for farm produce were raised substantially by the government in 1979 and will have to be readjusted from time to time. As soon as farm products are priced rationally, the peasants will produce more, and the urban and rural people will get more to eat and wear.

Pricing plays a conspicuous role in regulating farm production. During the First Five-Year Plan period, the government raised cotton prices by big margins to boost its production. The cotton acreage expanded immediately, cutting into the grain acreage and making it necessary to lower cotton prices slightly. As for meat, eggs and vegetables, the effect of pricing is even more obvious. Their free market prices are only 10-20 per cent higher than state prices. Fresh and good, the supplies are

liked by customers. When free markets first opened in some cities, the prices of farm products sold there were some 50 per cent above state prices. But they gradually came down as more supplies became available. Quite a few comrades are worried that regulation of supply and demand by the law of value will lead to a general rise in prices. They need not worry because, as stated earlier in this book, as long as we strictly control the amount of money in circulation and maintain a balance between the social purchasing power and the quantity of commodities supplied, there will be only minor fluctuations in prices but not a general rise. The rises and falls will bring the prices of commodities relatively close to their values. In effect, our economic work will then roughly conform to the objective laws of economic development. Is this a bad thing?

State purchase of some daily necessities on a requisition basis or by assigned quotas and their rationing have been going on in China for twenty years and more. This gives people the wrong impression that these mesures are essential for planned economic operations in a socialist country and for a balance between supply and demand. In some socialist countries, however, no such measures have ever been adopted, or they have been used for a time and have been abolished as soon as supplies became sufficient. These countries have paid more attention to narrowing the "scissors" differences between industrial and farm prices and have achieved a faster agricultural growth in recent years, making possible an unrationed supply of farm and side-line products. The above measures did play a positive role in balancing supply and demand in China. But because of our failure to make good use of the law of value, the differences between industrial and farm prices have widened in recent years. Many communes and their subdivisions have increased their production without bringing in a bigger income, much to the disappointment of the peasants. The contradictions between supply and demand sharpened, resulting in a vicious cycle whereby more and more goods were subjected to compulsory purchases and rationing. While these

measures cannot be abolished at once, we must realize that they are not the ways we should conduct our economic operations. The correct way is to promote an all-round development of farm production by a conscious application of economic laws, particularly the law of value, and, on such a basis, balance supply and demand by increasing market supplies. With an enormous population and limited arable land, China faces certain difficulties in acquiring an ample supply of farm produce, but there is still much room for developing her farm production. Through a full utilization of present productive capacities, farm output can be further raised in high-yielding areas and doubled or even tripled in low-yielding areas.

In short, economic life in a socialist country calls for a unified state plan to regulate the ratios between the different sectors of the economy and set the orientation of economic development so that there will be no anarchy in production. If we emphasize only the need to recognize the independence of collective economic units and grant a greater measure of independence to state enterprises without directing their economic operations into the orbit of state planning, the economy will suffer from confusion. On the other hand, we should recognize the importance of the market and the law of value, and must not think that planning the economy means setting the details of all economic operations in the country, requiring all state enterprises and even the collectives to act only according to instructions in the state plan, or denying their independence and initiative. This line of action will stagnate the economy and make it impossible to bridge production with demand. Such a system of planning is obviously inapplicable to China in view of her vast territory and large population.

Planning the socialist economy is a science which calls for intensive study. We should not rest content with the status quo or limit ourselves to conventional practices. Experience shows that, in China as in some other socialist countries, the traditional system of planning cannot give full scope to the superiority of the socialist system and is even inferior to the

practices in some developed capitalist countries in certain respects, such as in technological development and in suiting production to market demand. Do not think that the socialist system will manifest its superiority automatically once we establish the socialist public ownership of the means of production. Our socialist relations of production must conform to the level of development of productive forces, and so must the system of economic planning. The system used in the Soviet Union had its disadvantages even in the early 1950s, and it created more problems when copied by China. We must reform this system by preserving and developing its positive aspects and eliminating its negative aspects. It would be incorrect to either retain or reject it completely.

2. NATIONAL CONSTRUCTION AND THE PEOPLE'S LIVELIHOOD

All economic operations in a socialist country are designed to satisfy the rising material and cultural requirements of the people. They should be conducted in such a way that the people may fare ever better on the basis of growing production. For a faster rise in the people's living standard, it is necessary to carry out extended reproduction at a greater speed. To this end a larger accumulation fund has to be drawn from the national income. But a larger accumulation fund means a smaller consumption fund and, consequently, a slower rise in the people's living standard. The consumption fund meets the immediate needs of the people while the accumulation fund creates the material conditions for a better satisfaction of their future needs. While the two serve the same basic interests, there is a contradiction between them as far as the distribution of the national income is concerned.

The national economic plan of a socialist country must establish a proper ratio between accumulation and consumption. While establishing the ratio, the state should first try its

best to satisfy the immediate needs of the people. It must at least keep their present living standard and then improve it from year to year in the course of production growth. Failure to do this means inability to demonstrate the superiority of the socialist system and arouse the socialist enthusiasm of the working people, which will in turn slow down the development of the socialist economy. China followed a proper ratio between accumulation and consumption for some eight years after liberation, i.e., during the period of economic rehabilitation (1949-52) and the period of the First Five-Year Plan (1953-57). The people's life improved every year and both industrial and agricultural production grew fast. Under the First Five-Year Plan the annual rate of accumulation reached 24 per cent, which was already a bit too high. In 1956, the First Session of the Eighth National Congress of the Communist Party decided to keep it around 25 per cent in the Second Five-Year Plan period (1958-62), which represented a sound approach. However, from 1958 to 1960, the rate of accumulation rose above 30 per cent and even hovered around 40 per cent. This caused a slump in agricultural production and threw the national economy off balance. Industrial production was forced down as well, and the people went through much hardship during 1960-62. All this proved that, in the circumstances prevailing at the time, the rate of accumulation could only be kept around 25 per cent or even lower, and going beyond this limit would bring stagnation or even retrogression in production instead of rapid advances. If we had lowered the rate of accumulation from the beginning, we would have been able to use more funds to improve the peasants' conditions and promote agricultural growth and thus accelerate the development of light industry. (At the time, light industry depended on agricultural raw materials to a larger extent than at present.) By developing agriculture and light industry, we could have raised the people's living standard and ultimately accumulated large funds for a further development of heavy industry.

To overcome the nation's economic difficulties, we began to carry out a policy of "readjustment, consolidation, filling-out and raising the standards" in 1961. The rate of accumulation was kept under 20 per cent during 1961-63. The ratios between the different sectors of the economy were readjusted, paving the way for a favourable turn. In 1964-65 the rate of accumulation rose to some 25 per cent again. An all-round turn for the better was effected in 1965 and 1966 and the people's living standard returned almost to the 1957 level. If we had earnestly carried out the IInd FYP adopted at the Eighth Party Congress, the major slumps in industrial and agricultural production could have been avoided, the average annual rate of industrial growth in the eight years from 1958 to 1965 could have approached that in the Ist FYP period (18 per cent), while the rate of agricultural growth could have slightly exceeded that during the same FYP period (4.5 per cent). From 1958 to 1965, because of the twists and turns we experienced, industrial production rose by an average of only 3.8 per cent in the first five years and increased by an average of about 8 per cent in the eight-year period. Agricultural production dropped in the first five years and rose by an average of only 1.5 per cent in all the eight years. Since this small increase in farm output was offset by population growth, there could hardly be any improvement in the life of the people, whose socialist enthusiasm was also affected.

The IIIrd and IVth FYPs covered the years 1966-75. Interference from an ultra-Left line again caused ups and downs in industrial and agricultural production. The annual rate of accumulation reached 26 per cent in the IIIrd FYP period and exceeded 30 per cent from 1970 onward. Too many capital construction projects were undertaken with poor returns on investment, making it impossible to improve the people's livelihood. Things came to a head in 1976 when chaos reigned supreme in production, state enterprises suffered great losses, the government incurred a big financial deficit, and the whole economy was on the brink of collapse. After the Cultural Revolution,

industrial and agricultural production was gradually rehabilitated and began to show substantial rises. However, as the rate of accumulation stayed above 30 per cent and there were still too many projects under construction, imbalances remained in the national economy, requiring three more years of readjustment. The government increased the wages of most industrial and office workers in 1978 and raised the purchasing prices for farm products by large percentages in 1979. The workers and peasants are expected to fare better, preparing the ground for a faster development of industrial and agricultural production.

The rate of accumulation is not a stationary one. It may rise with per capita national income. But China is the most populous country in the world and remains a poor one in terms of per capita national income. While planning the economy, we should first make the best possible arrangements for the people's livelihood and should not rashly increase the rate of accumulation in disregard of their conditions. Under present circumstances it is preferable to keep the rate of accumulation at about 25 per cent and limit it to a maximum of 30 per cent. The investment rate in developed capitalist countries is generally 20 per cent and may occasionally exceed 30 per cent in some countries. Free from the extravagance and waste of the bourgeoisie, a socialist country like ours may increase the rate of accumulation to around 30 per cent if our per capita national income reaches the level of developed capitalist countries. But we are still far from this goal.

The accumulation fund is spent not only on the material means of production but also on labour power. Especially in farmland capital construction, the projects consume far more human labour than material means of production. The use of labour power, however, doesn't mean a non-consumption of material wealth, for the collective economic units must supply the labourers and their dependents with the necessary means of subsistence. However, the labour power used in farmland capital construction in China is often counted together

with that used in regular farm production. Thus the communes, brigades and teams often include the accumulation fund used for this purpose, i.e., payment to the capital construction labour force, in the consumption fund. The accumulation fund drawn by each production team from its net income is generally 5 per cent, but the actual spending is much greater.

Of China's fiscal revenue, less than 10 per cent is contributed by the peasants in taxes while more than 90 per cent comes from industry in both taxes and profits. It looks like the workers are contributing much more to the country's accumulation fund than the peasants, but it is not so. What happens is that a large part of the value created by the peasants is transferred to industry through unequal exchange and therefore appears as part of the contribution from the workers. In fact, the peasants' contribution makes up at least one third of state revenue.

In mapping out the national economic plan, the state sets apart a small portion of the accumulation fund as reserve in the form of goods and materials and rationally distributes the rest of the fund between departments engaged in material and non-material production. The latter covers culture and education, health, scientific research, urban construction, etc. It is normally correct to grant the larger part of the fund to material producers for extended reproduction. In China, however, too much has been invested in material production and too little in non-material production in the past thirty years, hampering a rise in the people's welfare. More should be spent in non-material production in coming years. Within the field of material production, too much has been spent on heavy industry and too little on agriculture and light industry, which has also worked against an improvement in the people's livelihood. The investment ratios between agriculture, light industry and heavy industry should be readjusted so that a little less will go to heavy industry and more will be given to agriculture and light industry.

In the process of social reproduction, the national scale of capital construction must fit in with the supply of capital goods, including various kinds of equipment and building materials. If the accumulation fund increases without a corresponding increase in the supply of capital goods, many capital construction projects cannot be completed on schedule. Likewise, the purchasing power of the population must rise with the supply of consumer goods. For an improvement in the people's livelihood, a greater supply of consumer goods is even more important than a bigger consumption fund. If the fund rises faster than the supply, people will not be able to buy what they need with their money and will not fare any better in effect.

The national economic plan also calls for a rational distribution of the consumption fund among the different sections of the population, especially between workers and peasants. The income of the workers is mainly determined by their wages, which should be increased as the principal means of improving their livelihood. At the same time, efforts should be made to build more housing for workers, expand cultural and educational undertakings and other welfare facilities, and ensure a better supply of consumer goods. The income of the peasants is determined, on the one hand, by the amount of farm produce they deliver to the state, and on the other, by the purchasing prices for farm produce and the selling prices of industrial goods. In view of the fairly big gaps between industrial and farm prices, raising the purchasing prices for farm produce and lowering the selling prices of industrial products will remain important ways to improve the life of the peasants.

The national economic plans in the past two decades have shown three main shortcomings in the arrangement for national construction and the people's livelihood:

1. The accumulation rate has been too high, preventing a yearly rise in the people's living standard and even lowering it in some years. The rate was raised to some 40 per cent between 1958 and 1960, which was a serious mistake. It remain-

ed above 30 per cent during the IVth FYP period (1971-75), which was still a bit too high. For more than a decade, people have been complaining about the over-extension of capital construction, but no one has made up his mind to cut it down. Many projects have remained half-finished for a long time, holding up the growth of production.

2. The planned targets for extended reproduction were too high when viewed against the limited supply of capital goods. Both Mao Zedong and Zhou Enlai pointed out many times that state plans must allow for unpredictable circumstances and needs. Some attention was paid to this principle during the Ist FYP period. Beginning with the IInd FYP, however, no allowance was made for unexpected needs, and big gaps were left in the supply of capital goods. Many production units suffered from a shortage of raw and processed materials, fuel and power, and could not fulfil their production plans. Many factories could not operate at full capacity. Many projects were held up because of lack of equipment and building materials. Some new projects could not be commissioned on schedule because of a lack of auxiliary facilities.

3. Insufficient attention was paid to the improvement of the people's livelihood. Especially during the ten years of the Cultural Revolution, the so-called "material stimulus" was subjected to criticism almost every day and efforts to improve the people's livelihood were dubbed as revisionist. Between 1957 and 1977, living standards almost remained the same. The wage average was not raised, the peasants' food grain was not increased, and about one in every three peasants led a hard life. This inevitably affected the working people's enthusiasm in production and industrial and agricultural growth.

As stated earlier, the purpose of socialist production is to satisfy the rising material and cultural requirements of the population. The level of development of productive forces in our country is very low and the living standard of the people is lower than that in developed capitalist countries. This is

unavoidable for the time being. However, production should grow faster in our country than in capitalist countries and our living standard should also rise faster than theirs. We achieved this aim in the first eight years after the founding of New China but failed to do so in the next two decades. Failure to achieve this aim doesn't mean that socialism is not a superior system. It only means that we have violated the objective laws of economic development in some respects and have not given full scope to the superiority of socialism. We should make up our minds to change the ratio between the accumulation fund and the consumption fund and quickly remedy our economic imbalances. By doing so, we are sure to achieve a faster rise in industry and agriculture and a speedier improvement in the people's life than in developed capitalist countries.

3. PROPORTIONATE AND SPEEDY DEVELOPMENT OF THE NATIONAL ECONOMY

Economic planning in a socialist country must guarantee a proportionate and speedy development of the economy to satisfy the varying and growing needs in national construction and the people's life. But this is easier said than done. The ratios between the different departments of the national economy in a capitalist country is mainly regulated spontaneously by the objective laws of capitalist development. In the last fifty years or so, measures for more state interference in economic activities have also been adopted in capitalist countries in the service of monopoly capital. Different from a capitalist economy, our socialist economy is regulated entirely by state plans. It has only been thirty years since we started to build socialism. With our lack of experience in coping with such a complicated task, mistakes are unavoidable. To avoid detours, we must earnestly review our experience and intensify our study of the theory and practice of a planned economy.

A proportionate development of the various departments of the national economy, which ensures a balance between production and demand, is necessary for both a capitalist and a socialist country. In a capitalist country, the increase in purchasing power often lags behind the increase in commodities as a manifestation of the contradiction between the social character of production and the capitalist mode of appropriation of the means of production. A sharpening of this contradiction triggers off a periodic crisis of overproduction. Contrary to this, production in a socialist country aims at satisfying the rising material and cultural needs of the people. But there is no limit to the rise in their needs. To meet such needs, production must grow at a high speed. In determining this speed, however, we must consider not only what needs to be done but also what can be done. If we set too high a speed and expand the capital construction programme beyond objective possibilities, the ratio between accumulation and consumption will very likely be upset, forcing us to lower the rate of production growth. As the saying goes, "Haste makes waste".

The accumulation fund is generally used for extended reproduction, which must be guaranteed by a sufficient supply of capital goods from heavy industry. An over-extended capital construction programme would mean much investment in heavy industry to the detriment of agriculture and light industry, resulting in imbalances between the three. During the Ist FYP period, the annual rate of industrial growth averaged 18 per cent, breaking down to 25.4 per cent for heavy industry and 12.9 per cent for light industry. The rate in agriculture was only 4.5 per cent. These were actually the first signs of imbalances between agriculture, light industry and heavy industry. In his 1956 speech, "On the Ten Major Relationships", Mao Zedong pointed out that if priority was to be given to heavy industry, then light industry and especially agriculture must be developed rapidly at the same time. Without agricultural development, he said, a smooth development of heavy

industry would be impossible. During the Ist FYP period, since agriculture grew from year to year and the people's livelihood improved as a result, the contradictions did not rise to the surface. The proposals for the IInd FYP presented by Zhou Enlai at the First Session of the Eighth National Congress of the Chinese Communist Party in 1956 provided for a twofold increase in industrial production in five years, as against the 2.28-fold increase during the Ist FYP period. Agricultural production would grow by 35 per cent as against 25 per cent during the Ist FYP period. The steel target for 1962 was 12 million tons, and grain output would reach 250 million tons the same year. Total capital investment for the five years was set at 100,000 million yuan, and the annual rate of accumulation at about 25 per cent. All this was correct. In 1958, owing to over-zealousness, the steel target was suddenly doubled to 10.7 million tons and the grain target increased to 350 million tons. Through strenuous and even reckless efforts, steel output was raised to eight million tons and grain output to 200 million tons. Even higher targets were set for 1959, including 18 million tons of steel and 275 million tons of grain. (The grain target had been even higher at first and was lowered to this figure in August 1959.) In the end, steel output reached only 13 million tons, and grain output dropped sharply. In such circumstances we should have readjusted the economic proportions in good time. Instead of doing this, we insisted on raising steel output to 18 million tons in 1960. Agricultural production continued to decline, serious imbalances appeared in the economy and the people had to go through much hardship.

A debate took place among China's economists in 1959 over the speed of growth and the proportions of the national economy. In an article entitled, "The Rapid and Proportionate Development of the Socialist Economy", which appeared in the *People's Daily* on January 7, I wrote that rapid development comes with a balanced development, but excessively rapid development leads to an imbalanced economy and must be

slowed down in the end. Some of my colleagues said that I was attacking the "Great Leap Forward". Objective laws were independent of the will of man. Beginning in 1961, heavy industrial production also declined sharply, proving that an unbalanced economy could not be developed at a high speed. The same year the Party Central Committee put forth the policy of "readjustment, consolidation, filling-out and raising the standards", and slashed the capital construction programme and production in heavy industry. Most of the over 20 million workers recruited from rural areas during 1958-60 were sent back to resume farm production. The national economy showed a turn for the better in 1962 and a general improvement in 1965 after three more years of readjustment. Following are the changes in the ratios between agriculture, light industry and heavy industry in terms of the value of output, based on 1957 prices:

	Agriculture	Light industry	Heavy industry
1957	43.3%	30.1%	26.6%
1960	20.1%	26.6%	53.3%
1965	29.8%	35.4%	34.8%

The table shows that during 1960-65, the proportions of the output values of agriculture and light industry in total agricultural and industrial output value rose speedily while that of heavy industry dropped sharply, resulting in a relatively balanced economy.

During the ten years of the Cultural Revolution, both industry and agriculture crawled at a slow pace. The per capita grain output in 1977 was roughly the same as in 1957 and total cotton output remained at the 1965 level. In the forthcoming years, great efforts must be made to increase farm production.

If farm production continues to show slow progress, it will hinder the improvement of the people's livelihood and become a serious obstacle to the modernization drive.

Since the completion of the agricultural cooperation movement in 1956-57, farmland and water conservancy construction has been carried out on a large scale and many projects have proved effective in the fight against floods and droughts. More and more farm machines, chemical fertilizers and insecticides have been made available. The material conditions of farm production have been improved at good speed. However, farm output has not increased fast enough and has remained far below the targets set in the FYPs. The basic cause lies in the errors we committed in the countryside. For a time a "communist wind" was stirred up, under which equalitarianism won the day and human and material resources were transferred in disregard of the collectives to which they belonged. Arbitrary directives were issued to collectives and peasants for doing one thing or another. All this infringed upon the rights of the communes, production brigades and production teams to make their own decisions, affecting the peasants' livelihood and their enthusiasm in socialist collective production. Mechanization and modernization are of course necessary for expanding the productive forces in agriculture. But the peasants are anxious to increase their present production and income to get their essential means of subsistence. Since their demand must be fulfilled, agricultural mechanization should not be carried out too soon, nor should the farm construction programme be over-extended. We should handle correctly the contradiction between an immediate improvement in the people's livelihood and the need for long-term construction, which essentially means a contradiction between consumption and accumulation. In areas where most of the peasants are still leading a hard life, the first thing to be done is to make proper arrangements for the year's production and distribution and improve the peasants' livelihood. On this basis, farmland and water conservancy construction may be

carried out step by step, and so may agricultural mechanization and modernization.

The principle for developing the national economy is to take agriculture as the foundation and industry as the leading factor. Without a developed agriculture, it will be impossible to expand industry on a large scale. On the other hand, if industry, especially modern heavy industry, remains underdeveloped, it will be impossible to provide sufficient equipment for modernizing the economy, including agriculture. In industrial development, we should carry out a policy of simultaneous development of heavy and light industry. For many years we have paid more attention to heavy industry and less to light industry. The consumer goods produced can hardly meet market demand, and little has been done to improve their quality and design. While the expansion of light industry is handicapped by a shortage of raw materials from agriculture and also by a shortage of power supply at present, it is also seriously affected by insufficient state investment, which makes it financially difficult for many factories to tap their potentials through technical innovation and transformation. Apart from this, natural resources like waste timber in forest areas have not been put to good use. China's light industry has a long history and promises much expansion, which will not only better satisfy consumer needs in the country and increase state accumulation but provide more exports. We should make full use of our great human resources and the superb skills of our workers to build bases for the production of export goods or the processing of imported material if we are short of domestic materials. This will be an important way to earn foreign exchange and import the latest technology.

China's heavy industry had a poor foundation before liberation. Over the past three decades, we have built much heavy industry, significantly raising the level of the country's industrial development and providing a solid foundation for modernization. Giving priority to the growth of heavy industry is an objective requirement of modern large-scale production,

but we should not build too much of it all at once. When New China was founded, heavy industry accounted for only 8 per cent of the gross value of industrial and farm output. Its proportion rose from 14.8 to 26.6 per cent during the Ist FYP period, which meant it was already growing a bit too fast. The proportion doubled between 1958 and 1960, causing serious imbalances in the national economy. After five years of readjustment, the economy generally returned to normal in 1965. Heavy industry now accounts for more than 40 per cent of total industrial-agricultural output, with light industry and agriculture each making up 30 per cent. The former needs to be lowered. The steel target for 1985, originally set at 60 million tons, should be reduced and the growth rates of agriculture and light industry increased to balance the three.

There is a complex division of labour and co-ordination between the interdependent branches of heavy industry. Proper balances have to be established between these branches as between agriculture, light industry and heavy industry. For many years, machine-building and other processing industries in China have grown relatively fast while the raw and semi-finished material industries, especially the fuel and power industries, have grown at a lower speed, resulting in imbalances within heavy industry. Many machine-building plants are operating under capacity. Great volumes of their products are being overstocked because of poor quality. Although the iron and steel industry has expanded, it cannot turn many of the ingots into rolled steel because its rolling capacity is lower than its steel-making capacity. In addition, many of the varieties and specifications of rolled steel do not meet customer needs because of problems in the managerial system as well as a preoccupation with quantity rather than quality. This is why much rolled steel is overstocked. Many factories and mills, including those in light industry, often have to suspend production for a lack of raw materials, fuel and electric power. If the proportions between the different branches of

heavy industry are not readjusted, the development of both heavy and light industry will be handicapped.

The proportions between the different departments of agriculture must also be readjusted. In the past, steel was the key link in industry and grain the key link in agriculture. The policy of "taking grain as the key link" hindered the development of cash crops as well as forestry, animal husbandry and fishery. To increase grain output, woods were destroyed in hilly areas to expand farmland and forage grass was removed in pastoral areas to grow grain crops. Not only was this disastrous to forestry and stockbreeding, but soil erosion grew serious and droughts and water-logging became more frequent. Consequently, grain production was slowed down as well. In the United States, agriculture accounts for 40 per cent and animal husbandry for 60 per cent of the gross output of the two. In China, agriculture accounts for over 80 per cent and animal husbandry for less than 20 per cent. Since people get little meat, they have to consume more grain and are undernourished. It seems necessary to expand animal husbandry and gradually change the composition of our people's diet. Hilly areas take up more than 60 per cent of China's territory, her pastoral acreage is more than double her farmland, and there are many rivers, lakes and bays in the country. In view of these natural conditions, we must make great efforts to expand forestry, animal husbandry and fishery so as to make the best use of our 9.6 million square kilometres of land.

Industrial and agricultural growth calls for a corresponding development of the transport industries. China's present railways, highways, harbours, vehicles and vessels cannot meet the needs of her industrial and farm production. Both metropolitan passenger service and short-distance freight service are inadequate. The transport industries remain a weak link in the economy. The transport problem must also be solved to expand coal, petroleum and other industries. More division of labour and co-ordination between different regions in in-

dustrial and farm production will create greater volumes of transport. In particular, harbour facilities must be improved and the number of ocean-going vessels increased for the expansion of foreign trade. The development of the transport industries forms an important part of the nation's modernization programme.

A speedy and proportionate growth of the nation's economy requires a new five- or ten-year plan and a corresponding arrangement of the annual plans.

4. EMPLOYMENT OF THE COUNTRY'S LABOUR FORCE

China's population now stands at more than 970 million. The rational use of the country's labour force is a vital question in economic planning.

In 1950, China had a population of 550 million. The country had only just been liberated, and her industrial and farm production were both in bad shape. The unemployed numbered three or four million in the cities, roughly equal to the number of employed, and there were many more jobless people in the rural areas. During the three years of economic rehabilitation, we carried out land reform in the rural areas, where every peasant was given a piece of land on which he could securely live. As for the jobless in the cities, we allowed a small number to join state enterprises, public institutions and government departments, while the rest earned their living by forming production teams and groups which were responsible for their own profits and losses. Some of the jobless were organized for the construction of public works, such as roads and water conservancy projects, and paid low wages. As production grew, the serious problem of unemployment was in the main solved in three years.

During the Ist FYP period, both production and the number of workers grew rapidly. While unemployment was virtually

eliminated, population increased by well over 10 million a year. All we could do was increase employment by creating more jobs at low wages. Wages were not high, but people fared better as employment grew. During those five years, the state strictly controlled the number of industrial and office workers on its payroll, while industrial labour productivity rose by 50 per cent. Our work in this field was satisfactory.

Between 1958 and 1960, however, as we loosened our control over employment, the total number of workers jumped from 24.5 million to 50 million while the rural labour force dropped by 23 million. As too many people took part in farmland capital construction, too few tended the crops. The overgrowth of the urban labour force caused great difficulties in the supply of daily necessities to the cities, and labour productivity dropped sharply. Between 1961 and 1962, the government cut the industrial labour force by 20 million and sent them back to rural areas for farm work, thus easing the economic strain. In most of the subsequent years the state maintained a strict control over the employment of industrial and office workers. During the ten years of the Cultural Revolution, labour productivity generally showed no rise but dropped in some departments because of poor management and slack discipline. The situation has changed for the better only in the last two or three years.

After the means of production were placed under socialist ownership in China, a wrong tendency surfaced — that of the state taking over all job placements. Before the changeover, the existence of private businesses and peddlers allowed for individuals to find jobs. After their disappearance, state labour departments had to provide jobs for all young men and women awaiting employment. Owing to the setbacks in economic construction, such young people often outnumbered the jobs available, creating an idle labour force in the cities. To solve this problem, the government has mobilized millions of middle school graduates for settlement in the countryside in the past ten years and more. Because there is too little farm-

land and life is otherwise difficult in rural areas, great numbers of young people have asked to return to the cities after a few years' work in the countryside. Thus the employment problem in the cities has become serious in the past ten years. Beginning in 1970, neighbourhood enterprises have been started in many cities, but they have employed mostly housewives or people physically unsuited for ordinary full-time jobs. The problem of young people awaiting employment remains unsolved.

Is it true that an insoluble employment problem has appeared in Chinese cities? Of course not. Investigations in many cities show a great many job opportunities. The problem remains that many young people have not found suitable jobs, while many essential jobs are left undone. Despite the increases in urban population and production, there has been a drop in the number of shops in the retail, food and beverage, repair and service trades, causing much inconvenience to the people. Requiring mostly manual, unskilled labour, such businesses should be expanded. If the state tries to operate them all, it cannot run them well. For a time, young people looking for jobs in cities were forbidden to establish co-operative businesses. In some cities they were permitted to do so but were subjected to many irrational restrictions. For instance, they received lower pay and fewer benefits than workers in state enterprises and had to turn over their extra profits to the local authorities. This has prevented a faster growth of co-operative businesses.

The central authorities have recently encouraged the development of co-operative businesses responsible for their profits and losses in the consumer and service trades in cities, pointing out the need to give them proper leadership and financial assistance and to free them from irrational restrictions. The government now permits individuals to provide people with door-to-door service as long as they don't exploit anyone. In response to the call from the central government, the authorities in many cities have found employment for

hundreds of thousands of young men and women. Since the founding of New China, the population in the country has nearly doubled, but the 1978 farm output was 2.3 times the 1952 figure while industrial output went up more than 30 times during the same period. Since we were able to solve the employment problem when New China was just founded, it would be inconceivable to deny our ability to do the same today. Over the past two decades, we've held the erroneous view that a socialist state must attend to everything in the life of all, or at least all urban citizens. Thus people looking for jobs were not allowed to earn their living in private enterprises, even those that benefit the public. Such a line of action transcends the actual level of our productive forces. It is therefore incorrect and should be changed as soon as possible.

Since Chinese peasants have long been organized in collective economic units, it seems that in their case no unemployment problem should exist. Actually, surplus manpower has appeared in many collective economic units because the rural population has grown faster than agricultural production. This will become more obvious in the course of farm mechanization. For more than a decade, interference by an ultra-Left line led to a reckless eradication of "capitalist tendencies" in rural areas and a ban on legitimate household side-lines. Many productive undertakings were abolished. In fact, many jobs can be created in the rural areas. There is some surplus manpower in the rural areas along the southeast coast because of the dense population and limited farmland, but some of these areas are still short of manpower because of the growth of a diversified economy and the commune industries. In many of the vast and thinly populated hilly and pastoral areas, which abound in natural resources, the peasants and herdsmen could have developed forestry, animal husbandry and side-line occupations in many ways. But as these occupations were discouraged for many years, large numbers of peasants and herdsmen could not find enough work, resulting in an artificial manpower surplus. To make full use of the manpower in these

areas, the people there should be guided to develop appropriate farm production, livestock breeding, farm products processing and other side-lines while the transportation and marketing of their products should be improved upon. Local peasants and herdsmen will then have a more secure life and be less apt to move around. When these areas are well developed, they may offer jobs to people from the densely populated areas.

In drawing up state plans in the past three decades, we often limited our attention to the placement of industrial and office workers in state enterprises, public institutions and government departments, failing to make overall arrangements from the standpoint of the over 900 million people across the country. This has widened the gap between the number of jobs available and the number of people awaiting employment. From now on, the organs in charge of planning and employment must take the whole country into consideration instead of merely attending to the less than 100 million workers and staff members on state payroll. From a long-term point of view, family planning must be strictly enforced and population growth restricted in the interest of a proper solution of the employment problem in the whole country. Our immediate task is to create jobs in cities and rural areas in every possible way. All undertakings that will increase production and people's income and make life easier for the population should be encouraged and not restricted. By developing the handicraft, retail, food and beverage and service trades based on collective ownership in the cities, we will kill two birds with one stone: find employment for many people and make life much easier for the urban population. The same is true of the development of side-line occupations in the rural areas and the marketing of native products in the cities which will increase both the income of the peasants and supplies to urban residents. These policies will gradually solve the problem of finding proper employment for China's total labour force of 400 million.

5. BALANCING THE NATIONAL ECONOMY

Overall balance is the key link in our economic planning. While the local authorities and enterprises in China are being granted more independence, we must pay closer attention to the overall arrangement of the nation's financial and material resources to ensure a balance between production and demand. The basic aim of overall balance is to handle correctly the relations between national construction and the people's livelihood, i.e., between accumulation and consumption, the relations between agriculture, light industry and heavy industry, which reflect the above relations, and the proportions within each of these three sectors. These relations are highly complicated. The way to achieve overall balance is not to set targets for thousands of products, but to concentrate on a few major ones. Specifically, we should first consider the balance between state revenue and expenditure and the government's credit balance, and then the balance between total supply and demand in terms of the gross value of social products. Along with the expansion of our international economic ties, we will also have to consider our foreign exchange balance, i.e., the balance of our international payments.

Under the national economic plan, the financial authorities in a socialist country collect an enormous sum from the net income (surplus products) of the departments of material production, and use it as capital investment or as expenditure for national defence, government administration, culture and education, health service and scientific research. Except for the sums set apart as wages in state enterprises and remuneration in collective economic units, the national income is redistributed largely through the financial channels of the state. The capital funds are provided mainly in the form of state allocations. Thus state revenue and expenditure mirror the nation's economic operations. Overall balance in the national economy is achieved mainly by balancing revenue and expenditure. State revenue consists of the surplus products of

state enterprises and collectives, which form its material basis. State expenditure must also be backed by material supplies. The balance between state revenue and expenditure generally mirrors the balance between total supply and demand. In case of a financial deficit, the currency in circulation would be increased to make up for it, but the increased sum would not be guaranteed by material supplies and therefore be likened to a "bounced cheque". If the sum were used for capital construction, the projects would be held up for lack of equipment and materials. If it were used for salary, it would cause a shortage of market supplies and the recipients would not be able to spend their money on things they wished to get. Such a pay increase would only result in long queues or a rush for goods.

To maintain the balance between state revenue and expenditure, the government must balance its budget, while all its departments and institutions and all state enterprises must strictly observe the financial guidelines. They must earn as much as planned and must not spend more than they are allowed to. On the other hand, while preparing its budget and formulating the financial guidelines, the state must follow the general policy set forth by Mao Zedong for the country's financial and economic work, i.e., "develop the economy and ensure supplies", so as to guarantee a growth in production and a secure life for the people. Industrial enterprises must be given ample financial resources to tap their potentials through technical innovation and transformation and the communes must be left with the financial means to develop farm production and side-line occupations. Cutting down expenditure on the sole basis of budgetary considerations keeps revenue and expenditure at the same old level. Utilization of all available financial resources to promote a growth in production is the only way to effect a steady rise in revenue and expenditure and balance the two at a higher standard.

While balancing its revenue and expenditure, a socialist state must also guarantee its credit balance. In New China the balance between revenue and expenditure used to be the real

basis for overall economic balance, while credit balance only played a supplementary role. Capital investments were provided entirely in the form of state allocations as were regular sums of working capital. The banks were mainly responsible for the extension of loans to cover the working capital needed in the exchange of products. In the course of such exchange, the banks often balanced its income and outlay when the buyer contracted a loan with the seller returning one almost simultaneously. An enterprise might also balance its income and expenditure in due time by using a loan for the procurement of supplies and paying it back after selling its products. In the past ten years and more, however, stockpiles of goods have grown to a serious extent as a result of bad management. Although the producers had sold their goods to commercial or supply departments and had delivered their profits to the state, the goods were still in warehouses and the loans extended to pay for them had not been repaid. In other words, the stockpiles were paid for by bank loans. The state budget showed a big surplus in 1958 and 1959 and a deficit in 1960, but the surplus remained at 4,000 million yuan after offsetting the deficit. During these years, however, the currency was not cut down but issued in great quantities, leading to the worst inflation since the founding of New China. The situation gradually changed for the better only after the drastic cuts in state expenditure, especially in capital funds, and the withdrawal of money from the market in the three subsequent years of economic readjustment. The state budget showed a fairly big surplus in 1977 and 1978, but the currency in circulation increased mainly because of the large volume of overstocked products.

In addition to the overstocking of products and the overspending of working capital by state enterprises, failure to recall the loans extended to collectives was another factor affecting credit balance. In some years, too much money was loaned to communes, many of which failed to pay it back and incurred big debts to the banks. The basic reason for their

inability to repay the loans lay in the wanton prohibition of side-line pursuits, the disruption of farm production and the drop in the peasants' income during the ten years of the Cultural Revolution. More loans should be extended to communes to help them develop farm and side-line production, but they should be paid back in due time. Previous loans should be paid back in instalments except in cases of absolute inability to do so. As long as we maintain a balance between state revenue and expenditure and a credit balance, the amount of currency we issue can be kept in line with the demand in market circulation as a guarantee for market and price stability.

In the forthcoming reform of the structure of economic management, we will expand the function of the banks to that of granting loans to enterprises or communes for technical innovation and the construction of smaller projects. Some of the state allocations will be replaced by bank loans. This will add importance and complexity to credit balance.

Apart from the balance of state revenue and expenditure and credit balance, there should also be a balance of supplies. This means a balance between the scale of national construction and the supply of capital goods and a balance between purchasing power and the supply of commodities. Here we are speaking of the balance between *total* supply and demand, not the balance between supply and demand in the case of a single product, which should be handled by those in charge of its production and marketing. Only a balance between *total* supply and demand will enable the supply and commercial departments to ensure a balance between supply and demand in the case of every single product. Since 1958, there has been an imbalance between total supply and demand almost every year, and the supply of both capital goods and consumer goods has fallen short of demand, while failure to meet consumer needs has caused the overstocking of some items. To solve the contradiction, many comrades asked for a faster growth in production and consequently more capital

construction. Instead of solving the contradiction, this line of action aggravated it.

In view of the above situation, some comrades believe that an imbalance between supply and demand is an objective law which a socialist country cannot avoid. This is not true. It is possible for us to ensure a relative balance between supply and demand. The fundamental cause of the imbalances that appeared in our country lay in our failure to achieve overall balance in the circumstances of an excessive rate of accumulation and an over-extended capital construction programme, which compelled us to hasten the development of heavy industry at the expense of agriculture and light industry. To hasten the development of heavy industry, however, the capital construction programme had to be further expanded and more capital goods procured. This caused an even more acute shortage of capital goods. Meanwhile, funds and supplies for agriculture and light industry were often cut down, aggravating the shortage of consumer goods.

Experience in the past two decades shows that, generally speaking, the demand for consumer goods is fairly stable because there is no sudden change in the size of the population or in people's demand for daily necessities like grain and cotton. Thus the demand for consumer goods is easy to work out. The supplies can be ensured through proper planning. The question of capital goods is more complicated. In 1960, when steel output reached 18 million tons, rolled steel was in short supply. In 1962, when steel production was cut down by more than 60 per cent, rolled steel was in adequate supply because capital investment had been cut by more than 80 per cent. If we set the ratio between accumulation and consumption and that between agriculture, light industry and heavy industry on the basis of the financial and material resources available, we are very likely to achieve a balance between total production and demand in a few years.

We have discussed the need to allow for some leeway in national economic planning. This means leaving no gaps in

the supply of capital funds and capital goods and setting apart some of them as reserve to cope with unexpected circumstances. For years, our construction programmes were too ambitious in view of the limited supply of capital goods. They boomeranged, retarding and not accelerating agricultural and industrial growth.

China's trade and economic co-operation with foreign countries have expanded since the establishment of diplomatic relations with the United States, Japan and other capitalist countries. Such trade and co-operation are expected to grow rapidly and we must ensure the balance of our international payments. To speed up socialist modernization we should expand trade and other economic co-operation with foreign countries and import advanced technology and equipment in a planned way. But this is being limited by the small volume of our exports. Many countries are ready to supply machinery and equipment to us through loans or delayed payments. While these methods are usable, we must consider our ability to pay the debts thus incurred. The basic way to repay foreign loans is to increase our exports. Apart from expanding the production and export of traditional items, we must also use imported technology, equipment, raw materials and parts to produce more exports. We may produce goods from imported materials, process goods with materials supplied by clients or conduct compensatory trade. The pay in China is low, but the workmanship is good. Such processing industries can be highly competitive internationally. Thus there are broad prospects for increasing our foreign exchange earnings.

To achieve a faster rate of modernization, we should import advanced technology and equipment for a number of modern projects which require large capital funds and take a long time to complete. We should use the returns from small, short-term projects to finance the large, long-term ones. In addition, we should work out a long-term plan for balancing our international payments in ten or twenty years. Too many big pro-

jects started at once would have our hands tied with foreign debts and damage our economic independence.

6. BUSINESS ACCOUNTING UNDER SOCIALISM

Scientific business accounting is essential for effective economic planning in a socialist country. The basic aim of business accounting is to see that all enterprises and the whole nation strive to achieve the maximum economic results through a minimum consumption of labour. This is the only way to ensure a rapid rise in production and living standards. For a long time we tried to develop production speedily by laying blind emphasis on output and output value without concern for economic results and by wastefully enlarging the capital construction programme without concern for the returns on the investment. There wasn't much to show for the people's hard labour.

Business accounting deals with three kinds of relations:

1. The relation between the cost of production and the value of the product. Production cost should always be less than value of the product, while their difference is the surplus product created in the course of production. Business accounting encourages enterprises to increase profit (the surplus product) by reducing production cost. For this purpose, they have to raise labour productivity and economize on the consumption of man-hours, raw and processed materials, fuel, power, etc. The bigger the surplus product from each enterprise, the greater the ability of the state to improve the people's livelihood and expand the construction programme.

The enormous number of products, however, makes it impossible to calculate production and consumption materially. Both have to be counted in terms of value and their monetary form, i.e., prices. Therefore, how accurately prices approximate values is significant in business accounting. If prices vary too far from values, the surplus products created by one enter-

prise may be transferred to another through an exchange at unequal values. To measure the growth in production accurately, currency must symbolize a specific quantity of social products or, in other words, prices must be kept stable. Changed prices have to be converted on the basis of price indices.

2. The relation between value (socially necessary labour) and use value, or the creation of maximum use value through a minimum consumption of labour. The same products of differing quality contain different use values. For example, if the life of an electric bulb, a motor car or a TV set is doubled, its use value is also doubled or, in other words, the economic result of its production is doubled. Generally speaking, a high-quality product consumes more social labour. To see that our business accounting reflects this situation, we should set prices according to quality. If two products of the same kind are different in utility, their prices should also be different.

3. The relation between production and demand. Products turned out by an enterprise must meet the needs of national construction and the people's livelihood. Products exceeding social demand have little or no use value. Their values cannot be realized or, in other words, the labour consumed in their production cannot be recognized by society and is therefore wasted. In the case of overproduction in a capitalist country, either production is restricted or goods destroyed. If products from our enterprises do not meet market demand and are overstocked, their production is economically ineffective and brings losses to the state and the people.

Serious waste has resulted from our neglect of business accounting over the years, as manifest in three respects:

1. *Production.* We often limited our attention to output and output value and contented ourselves with a false "high-speed development", while the actual economic results worsened. To measure production growth, the government had to use these two indices — output and output value. But a failure

to analyse these two indices has resulted in waste. For example:

(1) Many enterprises produced large amounts of sub-standard products because they devoted exclusive attention to quantity and neglected quality. In the past two decades, the quality of many products has not improved but worsened. Although the targets for output and output value were over-fulfilled, great losses were caused to the state and the people. For instance, the quality of tractors was so poor that they often lay idle after the peasants spent much of their savings to buy them. The cost of farm production rose, while agricultural labour productivity remained the same.

(2) Because of their preoccupation with output targets, many enterprises neglected to economize on raw and processed materials, fuel and power. Between 1958 and 1960, the consumption of coke for every ton of pig iron produced from a small blast furnace was three or four times that consumed in a large furnace, and the cost of the raw and processed materials consumed was often higher than the value of the products. The total value of output from the small blast furnaces was a positive number, the net output value was a negative one. Today many small blast furnaces and chemical fertilizer plants are operating at a cost two or three times that incurred by the large ones because of poor management or a lack of raw materials. In 1976, 37 per cent of the state industrial enterprises suffered losses totalling more than 7,000 million yuan. After two years of revamping, the situation has greatly improved, but the problem is far from being solved.

(3) To fulfil the targets for their output and output value, many enterprises produced large quantities of unmarketable products. Thus an acute shortage of many products coincided with the large stockpiles of goods rotting and rusting in warehouses. In 1978, eight million tons of rolled steel were imported while more than 15 million tons of rolled steel from domestic mills, almost three million tons more than 1977, were piled up in warehouses, and the stocks kept increasing in the

first half of 1979. By the end of 1978, the total value of machines and electrical appliances in stock exceeded 50,000 million yuan, and most of them had been overstocked without any proper reason. Such serious waste has caused tremendous losses to the nation.

There are many factors accounting for this state of affairs. If we look at the problem from the standpoint of business accounting, the main trouble is a reckless drive to achieve output and output value targets in disregard of economic results. The Party Central Committee has begun to tackle these problems. When they are solved, the economic results will be much greater in spite of a slight decline in the growth rate. The rate of industrial growth in China is much higher than those in developed capitalist countries, but the economic results achieved here are poorer. This merits our attention.

2. *Capital construction.* We often laid undue emphasis on increasing capital investment and expanding the construction programme. As a result, projects took an ever longer time to build, the returns on the investment became ever smaller, and many projects could not go into operation long after they were completed, causing astonishing waste. For example:

(1) In violation of the regular construction procedure, many projects were hastily started before designs were completed, or construction began simultaneously with prospecting and designing. Work on many projects had to be done over again, prolonging the construction period and entailing astonishing waste. Also, due to their irrational layouts, many completed projects are suffering from defects which cannot be corrected for years.

(2) As the supply of equipment and building materials could not keep pace with the expansion of the capital construction programme, many projects were often held up for lack of materials or equipment, and hundreds of thousands of workers, engineers and technicians had nothing to do for a long time. During the Ist FYP period, the key projects generally took about five years to complete. Today construction of a qurater of

the projects takes more than ten years. If we had cut the construction period by three or five years, many projects might have yielded enough returns to pay back for the investment.

(3) Co-ordination was poor among the different parts of a project. After the main part of a project was completed, some of the auxiliary parts were still progressing slowly or were delayed for a long time. Many tall apartment buildings were finished in six to twelve months, but it took much more time to fit the sewage, water and power supply systems and the heating facilities. Thus the buildings could not be used long after they were constructed.

In the 21 years between 1958 and 1979, total investment in capital construction in China came to more than 500,000 million yuan while the newly acquired fixed assets totalled only 300,000 million yuan or about 60 per cent of total investment. If this situation is not changed, a speedy development of the national economy is obviously not possible. The rate of economic growth is determined not only by the rate of accumulation but also by the economic results of the investment. During the Ist FYP period, the rate of accumulation was only 24 per cent, but the economic results of the investment were good, resulting in a high rate of economic growth. In subsequent years, the rate of accumulation was raised inappropriately to more than 30 or even 40 per cent, but the accumulation fund was not properly used and the results of the investment were poor, causing a sharp drop in the rate of economic growth. A higher rate of accumulation cannot compensate for the poorer results of investment. To develop the economy speedily, it is necessary to maintain a certain rate of accumulation, but an even more important point is to increase the economic results of investment.

3. *Labour power.* China has a big population and much manpower. Many comrades tend to think that a minor waste of manpower is insignificant. However, the waste of labour time is the biggest waste. During the Ist FYP period, it was necessary to adopt a policy of widening employment at low

wages, that is, "to let five people share the food of three", for a speedy solution of the employment problem. Even so the workers' labour productivity rose 50 per cent in five years amidst the fast growth in industrial production. In the past 20 years, the ups and downs in production have resulted in ten people doing the work of three, and labour productivity has lagged further behind that in capitalist countries. Six times more workers are needed in light industry and 11 times more in heavy industry to produce the same quantities of goods as in developed capitalist countries. If things go on like this, there will be no modernization. China's low level of science and technology is indeed an important reason for the low labour productivity in her industry, but a more important reason is poor management, including bad organization and slack discipline. Government departments and public institutions are overstaffed and are burdened with superfluous posts and offices. This is not only a waste of manpower but feathers the nest of bureaucracy. Things like this have become a serious obstacle to socialist modernization and must be thoroughly eliminated.

Good business accounting in a socialist enterprise is achieved through its own initiative rather than supervision by specialized government agencies, the financial authorities and the banks. The fixed assets and regular working capital of an enterprise have always been given gratis by the financial authorities. The enterprise has to turn over all its profits to the state, its products are purchased and marketed by state commercial departments, and its labour force is handled by state labour departments. Given no power or responsibility, the enterprise does not concern itself with the question of waste. Mere supervision from the higher authorities cannot ensure good business accounting if the enterprise is not interested. To change all this, it is necessary to make an enterprise economically responsible for the use of state funds and give it more power to handle its profits. It should be provided with a business fund for developing technical innovation and

transformation. Part of the extra profit earned through improved management may be used for the workers' collective welfare or distributed as bonuses among workers who have made greater contributions. The superiority of the socialist system cannot be brought into full play unless the interests of the state, the collective and the workers and staff, including the factory leaders, are integrated, and all are interested in increasing production and practising economy.

Chapter VIII

THE SYSTEM OF ECONOMIC MANAGEMENT IN A SOCIALIST COUNTRY

1. CHANGING THE SYSTEM OF ECONOMIC MANAGEMENT

After the establishment of socialist public ownership of the means of production, a socialist country must set up a system of economic management suited to such ownership. Commenting on the third edition of the Soviet textbook, *Political Economy,* Mao Zedong pointed out in early 1960 that the socialist transformation of the ownership of the means of production must be followed by a solution of the management problem. We should not assume that the socialist system will automatically demonstrate its superiority once the means of production are placed under socialist ownership. A sound system of management speeds up the development of productive forces while an unsound one hinders it.

The benefits of the socialist economic system are mainly twofold: First, since the means of production are under public ownership, the state may utilize the nation's manpower and material and financial resources on a plan and regulate all economic operations in the country in a unified way, avoiding the anarchy typical of a capitalist economy and the enormous waste of manpower and other resources resulting from it. Secondly, since the system of exploitation has been abolished and all working people have become masters in production, the state may achieve a high rate of economic growth by making full use of the initiative and creativeness of the central

government, the local governments, the enterprises and the labourers. These two aspects of the superiority of socialism are both interrelated and contradictory. If unified state leadership over the economy is interpreted as centralized management and is allowed to weaken the power of the local authorities and enterprises to manage their own affairs, our economic life will stagnate and the enthusiasm and initiative of the local authorities, enterprises and working people will be dampened. Such a system of management would become an obstacle to the development of productive forces. On the other hand, over-emphasis on independent management by the local authorities and enterprises and a weakening of unified state leadership over the economy would lead to anarchy.

China's present system of economic management is modeled after the Soviet one adopted during the Stalin era. It is characterized by over-centralization. The targets set by the central government are dictated to the local authorities and enterprises regardless of their suitability. The country's revenue and expenditure are all controlled by the central government. Except for specified allocations to local governments, all kinds of financial revenue are delivered to the central government. All investments in extended reproduction and all public undertakings are handled by the central government, which allocates them to the ministries for re-allocation to local authorities, enterprises or institutions for designated uses. At the local level, a sum of money may only be used as designated. Only a small portion of the local tax income is at the disposal of local authorities. The enterprises turn over to the state not only their profits but most of the money set aside to cover depreciation costs, which is likewise under the control of the central government. As for the distribution of products, the capital goods are allocated by state organs, while the consumer goods are purchased and marketed by state commercial agencies.

The advantage of this system lies in the state's concentrated use of its financial and material resources on projects vital to the economy. Its disadvantage lies in a neglect of the special

needs of the localities and enterprises, which cannot make rational use of their own manpower and material and financial resources. Rigid control fetters initiative and is therefore detrimental to achieving a maximum of economic results through a minimum expenditure of resources.

Centralization by the central government actually means decentralized control by its different economic departments. It is impossible for the leading economic organs of the central government, including the State Planning Commission, the State Economic Commission and the State Capital Construction Commission, to take charge of the economic operations in every industry or trade; some have to be left to the ministries. Although over a dozen ministries under the central authorities are in charge of production, they still cannot attend to all economic work. Every ministry has several bureaus, each of which is responsible for a particular trade. In addition, there are departments in charge of finance, material supplies and the country's labour force. The flood of directives issued by the departments to the local authorities make it impossible for them to achieve overall balance in their regions. In making arrangements for projects to be built, ministries and bureaus often want only to make their job easy and so fail to consult with the localities and other ministries and bureaus. This cuts the economic ties between the industries and trades and runs counter to the principle of specialization and co-ordination which must be observed in large-scale industry. Many of our factories, large and small, tend to be all-inclusive because the present system of management compels them to rely on no one but themselves. An administrative control which separates the inherent connections between economic operations — this is the basic defect in our economic management system.

China has a population of 970,000,000 and a territory of 9,600,000 square kilometres. Some provinces are as large as countries in Europe. Unified leadership must be coupled with management at different levels. In his 1956 speech, "On the Ten Major Relationships", Mao Zedong criticized the shortcom-

ings of over-centralization and pointed to the need to bring into play the initiative of both central and local authorities. In 1958, we expanded the power of local authorities so that they had the right to invest in their own projects. Local industries flourished wherever work was done well, laying the foundation for further development in subsequent years. However, due to insufficient experience, our leading economic organs failed to achieve overall balance on a national scale in matters of manpower and material and financial resources. They also committed the error of setting unrealistic production targets, exaggerating successes and giving arbitary directions. While the construction targets set by the central authorities were already high, they were further raised at local levels, unbalancing the national economy and forcing us to give up many new projects. In 1961, the Party Central Committee put forward the policy of "readjustment, consolidation, filling out and raising the standards", slashed the capital construction programme and readjusted the proportions between agriculture, light industry and heavy industry. This policy brought about a quick, all-round improvement in the national economy. Without a thorough analysis of our experience, however, we did not realize that the basic cause of the imbalances lay in the unrealistic targets and in our failure to make overall arrangements and to incorporate the central and local construction projects into a unified state plan on the basis of objective possibilities. Instead, we took the view that too much power had been granted to the localities. As a result, our system of economic management returned to the pre-1958 track.

The old system of management grants too little power not only to the local authorities but, worse still, to the enterprises. As stated earlier, an enterprise has to turn over to the state all its profits and even most of the money to cover its depreciation costs. All funds are controlled by the state. An enterprise has to apply for an investment allocation when it wants to rebuild or expand its premises. When a major overhaul or a renewal of the equipment is needed, it can only keep to the standards

of the original design and is not allowed to increase its value, change its shape or update the technology. If it wishes to change its technology, it has to submit a capital construction plan to the higher authorities for approval. All this binds it hand and foot so it cannot budge. Many of the factories we built in the fifties or sixties were technically advanced at the time. But they have lagged far behind similar factories in capitalist countries because, among other things, they have not been permitted to make technical innovations on their own.

Mao Zedong once stated that the basic principles for the management of the national economy were "unified planning and management at different levels" and "planning in major affairs and flexibility in minor ones". Twenty years have passed since he advanced these principles, but they have not really been put into practice. We had prepared the conditions for a reform in the management system on the eve of the Cultural Revolution. But the stable order established by then was completely upset during the ten chaotic years that followed. In those years, state plans were no longer effective, a semi-anarchy prevailed in the economy, and reform was out of the question. In the years since the collapse of the Gang of Four, we have re-established economic order and the managerial practices which proved effective in the past and have achieved initial results. While continuing to consolidate the economic order and eliminate the confusion in the management of enterprises and the economy, we must gradually change our management system to meet the requirements of socialist modernization. On the one hand, we must improve our economic planning, especially the overall balance of the economy, and readjust the ratios between accumulation and consumption and between agriculture, light industry and heavy industry. On the other, we must make up our minds to enlarge the power of the local authorities and especially the power of the enterprises and establish a democratic management system. We must manage the economy with fewer administra-

tive methods but more economic means in accordance with objective economic laws.

In changing the economic management system, we must adhere to the socialist road and pay attention to the following two principles:

1. Adhere to a planned economy, use correct methods of planning and give full scope to the initiative of the local authorities and the enterprises. The state should incorporate all economic operations in the country in a unified plan and, under the guidance of this plan, directly or indirectly coordinate the activities of all departments, all areas, all enterprises and all collective economic units. At the same time, we must understand that, as China's productive forces, especially those in her agriculture, are still at a low level and the socialist relations of production in the country are still imperfect, our planning should combine relative centralism with a certain measure of flexibility. Different methods of management should be adopted for the two kinds of public ownership. The economic sector under collective ownership should enjoy more independence than the sector under ownership by the whole people. There are also differences among enterprises owned by the whole people, and it is impossible to handle all of them in a single way. Planning can only provide the general direction and key ratios of economic development but not the details. It is necessary to bring into play the initiative and vitality of the local authorities and the enterprises instead of moving them like beads on an abacus. We should let them handle everything they can, give them more power and responsibility and combine the interests of the central government, the local governments, the enterprises and the labourers.

2. Make sure that our economic management system gradually develops in the direction of specialization and coordination in the course of agricultural and industrial modernization. This is something essential for large-scale, highly socialized production. In this respect we have much to learn from the useful experience in developed capitalist countries.

For the present, we have to take into consideration the fact that China's agriculture is still a partially self-sufficient economy. But it will change in the direction of specialization and co-ordination sooner or later. The degree of socialization of China's industrial production remains at the international level of the late forties. The present system of economic management is unfavourable to specialization and co-ordination and to our efforts to catch up with and surpass the advanced world levels. Management along administrative lines of division, i.e., a management divided up between the central ministries or between the local governments, cuts off the links between industries or areas and does not conform to the principle of specialization and co-ordination. Such an administrative set-up for economic management should gradually be replaced by economic organizations transcending the barriers between industries and regions. Breaking through the dividing line between the two systems of ownership, state enterprises and collectives may establish joint ventures which combine production with marketing on the basis of specialization and co-ordination.

In line with the above two principles, the present reform in our system of economic management should fulfil two urgent tasks. One is to change the management system in the enterprises, including the collectives, so as to give vigour and vitality to these grassroots units. The other is to change the system of management of the national economy so as to adapt it to large-scale socialized production and thus remove the obstacles to socialist modernization. These are highly complicated tasks involving many aspects of our economic life, such as the circulation of products, the wage system, the price control system and the planning system. I have stated my views on some of these questions in previous chapters and shall not repeat them here.

In reforming our system of economic management, while we may draw on the experience of other socialist countries and some capitalist countries, we should proceed from our actual

conditions and should not mechanically imitate what is done abroad. At the same time, we should be aware that because the present system has remained in force for years, many people are used to it. A change in the system will affect the interests of many quarters. Thus it is likely to be handicapped by conventional ideas and meet with resistance. We must be bold in our thinking and action. At the same time we must be practical in our work and continually gain experience through experimentation.

2. REFORMING THE MANAGEMENT OF STATE ENTERPRISES

State enterprises are grassroots units of business management under ownership by the whole people. Under the guidance of state planning, they should have the power to handle their financial, material and manpower resources and should endeavour to obtain a maximum of economic results through a minimum expenditure of labour. Under the existing system of management, however, state enterprises submit to unified state control over its income and expenditure and receive state allocations for all its spending, which is known as "everybody eating the rice cooked in one big pot". Workers are hired but not fired, promoted but not demoted, a phenomenon which we call an "iron rice bowl". Many comrades mistake these practices as signs of "the advantages of socialism". In fact, they are remnants of the supply system used during the revolutionary wars and have become a major obstacle to socialist modernization.

An enterprise in a capitalist country assumes exclusive responsibility for its profits or losses and enjoys full right to its management. To survive market competition, it tries its best to improve production technology and management and reduce the consumption of manpower, material and money. The purpose is to bring in a maximum profit by using a minimum of capital.

Under the capitalist system, production is unplanned and unorganized on a national scale and causes astonishing waste, but it is carefully calculated, planned and organized in a particular enterprise or monopoly group. We may learn a lot from their methods of management which are based on several hundred years of experience. A socialist enterprise must change the backward methods of management, metaphorically compared to everyone using an iron rice bowl to eat what is cooked in the same big pot. Otherwise it will be impossible for socialism to triumph over capitalism by creating a higher labour productivity.

An enterprise trying to improve its management must be granted some independence in using its human, financial and material resources, in procuring its materials, in production and in sales business.

In the first place, it is necessary to give it a business fund and abolish the government's monopoly control over its income and expenditure. If an enterprise turns over all its profits to the state and has no money at its own disposal, it can barely carry on simple reproduction but cannot sustain extended reproduction, update its technology or carry out reconstruction and expansion. Preservation of such a system prevents a speedy modernization of the national economy. If a business fund is to be granted as an encouragement to well-managed enterprises, we must introduce a profit retention system, that is, a system for the enterprises to retain part of their profits for their own use. There can be two ways of doing this: retaining part of the whole profit or part of the extra profit. The former means dividing the whole profit between the state and the enterprise by definite proportions. The latter means giving little or nothing to an enterprise from the profit it makes within the state quota, but much to it from the profit it makes over and above the quota or from the increase in its profit over the previous year. As conditions vary from one industry or enterprise to another, so should the proportions of profit retention. After the profit retention system is initiated, an

advanced enterprise will enjoy larger funds and speedier growth than a backward one. Backward enterprises, theoretically capable of making innovations or updating their technology, cannot do so for lack of funds. The state would extend short-term loans to them on the condition of timely repayment from their increased profits.

Complicated problems are involved in introducing a profit retention system and they should be handled by economic means. The profit margins of the enterprises are determined by both subjective and objective factors. Those making a higher profit because of subjective factors, such as good management, should be rewarded, while those making more profit on account of objective factors should, in principle, turn them over to the state. The objective factors include:

1. The price factor. The price of many products in China show variance from their value, an important factor determining profit margin. After the profit retention system is introduced, the prices of products must be readjusted to approximate value. If the profit margins on some products are too wide and yet it is impossible to lower their prices, the extra profits should be turned over to the state in the form of product taxes so that all industries and trades will get reasonable post-taxation profits under normal management.

2. Mineral resources. Some oil wells produce a few tons a day while others produce hundreds or even thousands. On the basis of such differences, the state should either levy different taxes on resources or introduce a system whereby the mining enterprises retain varying portions of the profit they earn over and above the assigned profit norms. The system should subsidize coal mines which have suffered losses for years because of their poor resources. If they save part of the subsidies through good management, they should be entitled to retain part of the savings.

3. Labour productivity. Differences in labour productivity result from the use of different kinds of equipment. Such differences are created by unequal sums of state investment

and not by unequal degrees of effort on the part of the workers. To solve this problem, the state may introduce a system whereby the enterprises pay a compensation for the appropriation of fixed assets. They may pay taxes or interest on these assets at different rates to offset the differences in profit margins.

When the profit retention system is initiated, a greater part of the business fund thus established in an enterprise should be used for technical innovation and transformation and, if possible, for reconstruction and expansion. A smaller part may be used to improve the workers' collective welfare facilities and distributed to the workers and staff as bonuses. The specific proportions should be based on the conditions in each enterprise. If the fund is large, more should be used for technological development and less for collective welfare and bonuses so that the remuneration will not vary too much from one enterprise to another. When necessary, the state may set a maximum and a minimum for such remuneration so that profit retention will not create excessive financial differences among workers.

Secondly, it is necessary to change the system by which an enterprise uses its fixed assets and working capital. So far the state has allocated fixed assets to enterprises for use without compensation. If an enterprise wishes to buy more equipment, it has to apply for a financial grant from the state, for it has neither the money nor the power to expand its equipment or change its technology. Even the director of a big factory employing tens of thousands of workers does not have the power or money to build a canteen or an apartment building for the workers. He has to apply for approval and for an allocation from the higher authorities. Under such a supply system whereby the state exercises exclusive control over the income and expenditure of its enterprises and allocates the money for all their spending, an enterprise cannot conduct its own managerial work as a business accounting unit. Since it has no say over and bears no responsibility for its property,

much state money is wasted. When an enterprise applies for an investment, it tries to get as much as possible even if part of it will remain idle. But it has no money to get the equipment needed for technical innovation and transformation. Applications for investments are often turned down by the authorities or passed on to different levels for approval over a long time. This system is a serious obstacle to modernization.

The way to handle the depreciation of fixed assets in China also has to be changed. Amid the speedy developments in modern science and technology, the depreciation period of equipment has been shortened to anywhere from 5 to 8 years in capitalist countries. In China it generally remains around 25 years. Enterprises in capitalist countries have to renew their equipment frequently, while ours are encouraged to make do with what is available. An enterprise has to turn over to the state most of its money to cover the depreciation of its fixed assets and can only keep some money for major overhauls. Any renewal of existing equipment must be approved and financed by the higher authorities. The use of advanced technology in major overhauls is not favoured but restricted. While an enterprise should be run with industry and thrift, the present low rate of depreciation and the irrational handling of the depreciation fund must be changed.

For this purpose, it is necessary to establish a system of compensated appropriation of fixed assets. State capital investments may be placed at the disposal of the banks, which will grant them to the enterprises for use as fixed assets. A general check-up should also be made on the fixed assets already in use. On the one hand, the fixed assets belong to an enterprise, which may transfer the surplus assets to the higher authorities for compensated use by other enterprises or may lease or sell them to another enterprise and use the income to buy whatever fixed assets it needs. On the other hand, these fixed assets represent an enterprise's liabilities to the state, for which it should pay an interest or a tax at regular intervals according to state regulations. It is likely that the bulk of capital investments

will still take the form of budgetary allocations. The investments are owned by the state but are handled by the banks, which turn over the interest payment on these investments to the state. Smaller sums of capital investment may be granted as direct loans from the banks, to which the enterprises pay principal and interest on schedule.

The system of compensated use may also be applied to working capital, which will always be distributed as bank loans. The rates of interest on such loans may be lower for regular sums and higher for additional ones and higher still for those used to pay for overstocked goods. This will help eliminate both overstocking and man-made shortages of goods as well as the waste of funds. While the astonishing stockpiles of raw and processed materials and of finished products in various enterprises are mainly caused by defects in the current supply system, they also have much to do with the uncompensated use of working capital.

After an enterprise establishes its business fund, most of the money needed to cover depreciation should also be placed at its disposal. Instead of restricting the use of the fund, the state should encourage an enterprise to carry out technical innovation and transformation with its own money or by contracting short-term bank loans whenever necessary. However, the usefulness of such funds has to be guaranteed by a sufficient supply of capital goods, which should be provided for in the state plan and made available in every possible way. Plans for major reconstruction or expansion, especially those for new projects, should be submitted to state authorities for approval in the interest of balancing the supply of capital goods.

Thirdly, it is necessary to reform the personnel system. The system of management in our enterprises should guarantee the rational use of financial and material resources as well as that of manpower. To this end, the state should allow the enterprises to organize their labour force in line with their respective needs so that everyone may contribute his best, breaking

down the "iron rice bowl" system under which one can only be hired but not fired and only promoted but not demoted. Our socialist constitution states that every citizen able to work has both the right and the obligation to work. The nation's labour force should in principle be taken care of by state planning. However, the job requirements in the enterprises are highly complicated and working ability varies from one person to another. To make the best possible use of people's talents, the state should make overall arrangements, but the enterprises should be free to select its workers and staff members, and each person should also enjoy some freedom to choose his or her job. A combination of the three is a difficult and yet indispensable task.

Most of the people working in our enterprises and government institutions are equal to their jobs and have a chance to make good use of their abilities. But a small number of them are either incompetent or are prevented from using their capabilities. The state should introduce a system of vocational assessment and promotion in order to transfer those who cannot fully use their abilities at suitable jobs. An enterprise should have the power to demote those who prove to be incompetent in the course of vocational assessment. It should have the power to discharge, after discussion by the trade union, a small number of workers who have for a long time refused to do a conscientious job or who have committed serious mistakes but refuse to mend their ways despite repeated admonition. The discharged workers may be referred back to the labour departments for new assignments or may also be allowed to find jobs by themselves. For years, many of our enterprises and government institutions have been overstaffed and have shown a slack discipline. To change the situation, it is necessary to simplify the administrative setups, strictly review the performances of all workers and staff members, promote or demote them on this basis, and reduce the numbers of workers and staff members so as to raise our efficiency to a much higher level. Workers and staff members

removed from their present jobs may be transferred to suitable ones. The young ones may be given a chance to study and the old ones who can no longer work may retire and will be given proper care. In any case, they will not become destitute and left homeless as in a capitalist society.

To bring into full play the role of scientists, technicians and other people with special knowledge and skill, the state should give them the right to choose their jobs under certain conditions. Some labour and personnel departments have often assumed a bureaucratic attitude and have arranged jobs for people without regard for their capabilities. Some scientific research institutes have for a long time failed to give proper jobs to scientists and technicians, but would not let them go when they were wanted by other institutions. Some scientists and technicians had nothing to do in their own institutions. When they found suitable jobs, the personnel departments held them back. Some scientists and technicians have not been able to do much work or advance their studies for one or two decades, wasting many of their best years. A number of China's outstanding scientists and technologists were unknown in the country until their names appeared in the foreign press. Such waste of talent must not be tolerated in a socialist society. In particular, at a time when the whole nation is working hard for modernization, such a wasteful system of labour must not be allowed to continue.

Fourthly, it is necessary to change the system of leadership in the enterprises. The enlargement of an enterprise's power to manage its own affairs must be followed by a change in its system of leadership. This means establishing a system of collective leadership with each person responsible for a particular field of work. In the early fifties, in view of the over-centralized leadership in enterprises in the Soviet Union, Mao Zedong criticized the system of "one-man leadership", which was replaced by a system of the director and vice-directors of a factory assuming responsibility for different kinds of work under the leadership of the Party committee. However, in

many cases the Party committee often took everything into its own hands and so weakened the powers which should normally be exercised by the director, the chief engineer and the treasurer. The administrative offices in many enterprises have failed to establish a system of personal responsibility, resulting in poor efficiency and serious bureaucracy. This is incompatible with the requirements of modernization. From now on, the Party committee should not exercise direct control over production and business operations. Its task is to ensure the implementation of the Party's polices and guidelines and carry out political and ideological work essential for modernization, while production and business operations should be left to the factory director, the chief engineer and the treasurer. An enterprise should institute a strict system of personal responsibility, conduct regular check-ups and remove any cadre who is incompetent or fails to fulfil his duties. For this purpose, it is necessary to strengthen democratic management in enterprises and government institutions, establish and perfect the system of the workers' congress and gradually introduce elections of leaders at various levels so that the workers may enjoy the right to supervise their leaders. The initiation of true democratic management is an extremely important step in the reform of the management system in an enterprise. Without democratic management, the many measures adopted for such a reform will not work or may even bring bad results.

3. REFORMING THE MANAGEMENT OF THE NATIONAL ECONOMY

The system of management in both the enterprises and the national economy needs to be changed. As changes are introduced in the managerial system in the enterprises, the same system in the different branches of the national economy must be changed accordingly. The changes to be introduced in the systems in such fields as planning, the distribution of supplies,

commerce, labour adminstration and wages, and price control have all been discussed in previous chapters. Here I shall limit myself to two major questions involved in changing the system of management of the national economy.

To change the system of management of the national economy, it is first of all necessary to clearly define the limits of authority of the central and local governments on the principle of "unified leadership and management at different levels". In the relations between the central and local governments, the key questions are a change in the system of financial administration and a change in the way to exercise leadership over the enterprises.

So far, most of the tax payments and profits of the enterprises are handed over to the Ministry of Finance through the financial departments at various levels. The budgets of the provinces, municipalities and autonomous regions are worked out by the Ministry of Finance in consultation with their governments. The rich areas turn over most of their revenue to the central government, the poorer areas turn over a part or none, while the poorest areas get a subsidy. But all areas, rich or poor, only keep a tiny part of their revenue that can barely cover administrative expenses and the spending on minor construction projects and public undertakings. Most of the capital investments are allocated by the central government to its ministries for re-allocation to the provinces, municipalities and autonomous regions and then to the enterprises, with each grant earmarked for a specific purpose. The same thing often applies to the funds for public undertakings. The central ministries may withdraw any fund if it is found to be duplicated, wasted or used for an unauthorized purpose. In fact, what the local authorities do is to combine grants from the various ministries as budgetary revenue, having little money at their own disposal. Most of their extra revenue has to be turned over to the central government. This is why the financial departments in the provinces, municipalities and autonomous regions do not take much interest in their revenue and expenditure,

making no serious effort to increase the former or cut down the latter. Neither do they have the power to make readjustments even if they find duplications and waste in expenditure.

A change in financial administration was tried out in Jiangsu Province a few years ago, with a division of local revenue between the central and local governments. It was agreed that the province would share its revenue with the central authorities by a definite ratio over a period of three years, during which it would be responsible for the balance of its own budget. The experiment resulted in an immediate rise in local revenue. In 1976, the national revenue dropped, but Jiangsu registered a rise. The following year, when the national revenue went up, Jiangsu achieved a big increase over the previous year.

What has been done in Jiangsu is only one of the several possibilities of changing financial management. When conditions are ripe, it will also be advisable to divide the different kinds of revenue and expenditure amongst authorities at different levels. This way, the scope of revenue and expenditure will be clearly defined for the central government and for the governments of the provinces, municipalities and autonomous regions. Certain tax incomes will go to the central government while others will be collected by the local governments, and the enterprises will each turn over its profits to the authorities in charge of its affairs. Whoever earns more may spend more, and governments at all levels are to balance their own budgets. This practice will give greater financial power to the local authorities.

After financial power is divided between the central and local authorities, all major construction projects will still have to be built with investments from the central government, while the local governments may build auxiliary projects rendering service to the major ones. Local financial resources should first of all be used for agricultural development and then for tapping the potential of the existing local industries

through technical innovation and transformation. They may also be spent on the construction of some new factories and transport facilities as well as schools, hospitals, shops, workers' housing and other collective welfare facilities. As things now stand, the local governments do not have enough money at their disposal to develop or expand their potential. They have accomplished little municipal construction and are unable to ease the people's difficulties. Actually, projects built by local governments make possible a fuller use of local resources and are better suited to local needs. In general, medium-sized and small projects should be built by local authorities with guidance from the higher levels. They may also be handled by specialized or joint corporations as soon as the latter are set up.

Of course, a division of financial power between the central and local governments will not solve all problems. For example, the financial and material resources acquired by Jiangsu Province through the abovementioned experiment are still quite limited and can only cater to its own needs. Thus it will probably cut its aid to other parts of the country. The province has a well-developed machine-building industry which may supply many products to other provinces. But more investment and resources will be needed for Jiangsu to satisfy the needs in these provinces. Failure to acquire them will limit the co-operation between Jiangsu and other provinces. The southern parts of Jiangsu Province, including Suzhou, Wuxi and Changzhou, have always had close economic links with Shanghai, with local factories, including commune factories, working on orders from big plants there. After planning is placed mainly on a regional basis, such traditional ties of co-operation will probably be weakened, hindering the co-ordination between these areas and Shanghai on the basis of specialization. This is obviously detrimental to socialist modernization.

Moreover, since industrial development is extremely uneven among China's provinces, municipalities and autonomous regions, the industrially backward ones urgently need support

from the advanced ones for economic construction. Thus there are contradictions not only between the central ministries and the localities but also among the localities themselves. Generally speaking, industrially developed areas wish to acquire greater independence while the underdeveloped ones prefer unified management and unified allocation of products by the central government. The same kind of contradiction also exists between producers' and buyers' areas on major products like rolled steel, timber, cement and coal, with the producers demanding more power for the local authorities and the buyers preferring unified allocation by the central government. For these reasons, it has been very difficult for state organs of economic management to reach an agreement on changing the current system of planning and management.

What is the real trouble? It lies mainly in the contradiction between the system of administrative control and the objective requirements of economic development. The main feature of the old system of economic management in China is management by administrative set-ups, administrative gradations and administrative regions. Such an artificial division of economic management along administrative lines does not conform to the objective laws of economic movement and is therefore unfavourable to the division of labour and coordination among different industries and enterprises. The development of large-scale socialized production would mean a more elaborate division of labour in production. To meet the needs arising from the division of labour, the central and provincial governments have set up more and more ministries and bureaus. As none of the economic operations of the enterprises can be conducted in an isolated way, each has to be authorized by the many departments concerned, often creating several months' paper work. Sometimes a problem remains unsolved after several years. To avoid all these troubles, enterprises often stick to their old ways and act mechanically on orders from above. Although some enterprises have been placed under the local authorities, many problems

still have to be referred to the higher levels. During the periods of the Ist and IIIrd FYPs, almost all the large industrial enterprises were placed under the unified administration of the central ministries, dampening the initiative of the local authorities in managing the economy. Some of the new enterprises built by the ministries were often wasteful duplications of existing ones but the local authorities were powerless to do anything about this. In 1970, many big enterprises administered directly by the central ministries were placed under local governments. But the supply of materials to these enterprises, their production and the marketing of their products were still controlled by the ministries. With one more "boss", these enterprises only found things more difficult. Some came up against even greater difficulties because they were put under a municipal government within a province and therefore had to obey three "bosses" — the central ministry, the provincial authorities and the municipal authorities. Many factories had originally supplied their products to the whole country. Some were put under a local administration and their production was adapted to local needs, resulting in a shortage of their former products. Originally a few factories had produced certain types of goods for the whole country. After decentralization, each province had to build factories producing such goods, creating much waste. Some areas, counties in particular, set up factories merely for their own interests without considering the supply of raw materials and fuels.

The controversy over whether the economy should be managed along the vertical lines of division between the central ministries or along the horizontal lines of division between localities will not lead to a fundamental solution of the problem. Reform must centre on expanding the power of the enterprises and of specialized or joint corporations, which will take over economic management from administrative organs. This will bring a complete change to the current system of economic management in China.

To meet the requirements of large-scale socialized production and the resultant specialization and co-ordination, many enterprises in capitalist countries have merged with one another to form specialized or joint corporations, which extend their operations beyond the limits of their respective industries, regions or nations. Although our country has a different economic system, we are confronted with the same objective requirements arising from large-scale socialized production. We also find it necessary to organize various specialized corporations, such as motor vehicle corporations, to combine many medium-sized and small plants for streamlined production. We may also set up joint corporations on a still larger scale. For example, an iron and steel corporation may simultaneously conduct mining, coking, iron-smelting, steel-making and steel-rolling and may also operate chemical and building material plants through a multi-purpose utilization of its resources. The equipment it needs may be made in its own plants or by other heavy machinery plants and may be imported if necessary. Corporations like this should set up agencies for the procurement of raw and processed materials and fuels, sales departments and research and design institutes. All these establishments are placed under unified management, but each should conduct its own business accounting. A joint corporation has the right to decide on its economic operations through periodic consultations with the establishments under its management without having to apply for authorization from the higher administrative organs. Some ministries have set up specialized or joint corporations without cutting down the power of their specialized bureaus. The result is an overlapping of establishments plus lower efficiency.

Specialization and co-ordination should be introduced not only within industry, but also between industry, agriculture and commerce. For example, the Yee Tsung Tobacco Co. Ltd. was a cigarette manufacturer established by British capital in old China which built several tobacco-growing bases to get the quality raw materials it needed. We may do the same

thing. Textile mills, especially those using silk, wool and linen, should concern themselves with the production and purchase of silkworm cocoons, wool and bast fibre and then try out streamlined production based on specialization and co-ordination. Factories producing export commodities may also form joint corporations with both raw material suppliers and exporters. The present lines of division between raw material producers, manufacturers and sellers do not help to improve the quality of products and increase their variety to meet market needs, but merely raise the cost of production. A change should be effected step by step.

There has always been a strict division between China's industry and commerce. As commercial agencies have to both purchase and try to sell everything produced, production often doesn't suit demand. The central government has recently authorized commercial agencies to purchase goods on a selective basis, but this has created new contradictions between industry and commerce. To reduce their stocks, commercial agencies refuse to purchase many products in demand while forbidding the producers to sell them by themselves. This forced down light industrial production in many areas. Selective purchases by commercial agencies should go hand in hand with the marketing of goods by their producers. Some factories and industries set up their own marketing agencies to sell goods which the commercial agencies do not want to purchase. The marketing agencies set up by factories may also handle the repairs of certain types of goods for customers. New products should generally be sold by the producers so that they may research market needs and improve quality. In foreign trade, we should perhaps change the practice of trade companies handling all transactions with businessmen from abroad, with whom the producers have no direct contact. The producers should take part in trade talks and in the conclusion of contracts. They should share the foreign exchange earnings with the trade companies as well as the responsibility for fulfilling the contracts. Some producers should

be authorized to establish direct co-operation with foreign businessmen and undertake jobs like the processing of imported materials. Industries and specialized corporations producing large quantities of export commodities should be permitted to set up their own import and export companies, which would operate under the guidance of the foreign trade authorities. The foreign trade authorities should not monopolize but provide guidance for the import and export business conducted by various institutions.

In connection with the reform in the system of economic management, Chinese economists are discussing whether the economy should be managed through planning or through the market or whether it should be managed by administrative or by economic methods. The differences between the one and the other may be illustrated by some examples.

Capital investments may be handled in three ways. First, the government grants budgetary allocations and pays for all spending on a non-compensatory basis. This is a purely administrative method. Second, the government grants budgetary allocations through banks, to which the recipients return whatever they spend. This is a combination of administrative and economic methods. Third, all investments are loaned by the banks, to which the recipients pay principal and interest. This is a purely economic method. So far we have been using the first method. We may use the second method for investments in major projects and the third for those in small projects and technical innovations.

The circulation of products may also be handled in three ways. First, the capital goods are allocated according to plan while the consumer goods are procured and marketed by state commerce. This is the administrative method. Second, the capital goods controlled by the State Planning Commission and by the central ministries are supplied by state quotas and are purchased by users from the specialized corporations according to these quotas, while the other capital goods are open to free purchase. As for consumer goods, the major items are pro-

cured by state commerce and rationed to consumers, while the other items are open to free purchase. Third, the quotas of capital goods and the rations of consumer goods are both abolished, and everything is open to free purchase. At present, we can only adopt the second method because we cannot entirely abolish the quotas and rations but can only narrow their scope. The third method can be considered only when there is an abundant supply of capital and consumer goods and when we will be able to make full use of the role of the market and balance supply and demand through our tax, price and credit policies.

Production may be planned directly or indirectly. In other words, the plans may either be binding instructions or mere references. In China, direct planning has generally been applied to the economic sector under ownership by the whole people and indirect planning to the sector under collective ownership. In actual practice, the latter often became direct planning as well. From now on, no compulsory crop targets should be set for the collectives and much of the direct planning in the economic sector under ownership by the whole people may gradually be changed to indirect planning, whereby state plans will be fulfilled through consultations with producers and the implementation of various economic policies.

Will the organs of economic administration be abolished after the replacement of administrative orders by economic means? No, they cannot be abolished. These organs should be simplified and reduced in staff size since they will no longer handle actual economic operations, but they will still be charged with heavy responsibilities of leadership. After a fundamental change in the method of leadership, they must learn to make good use of the regulatory role of the market and greatly improve their art of leadership. This means not a lighter but a much heavier responsibility.

The planning commissions at all levels will still work out long-term and annual economic plans to achieve overall balance in the national economy. A change from direct to indirect

planning does not mean making the plans optional. They must be carried out, but the difference lies in the means of carrying them out. In other words, the state will see to their fulfilment through consultation and by economic measures, utilizing the role of the market and the law of value and other economic laws. Compared with direct planning, indirect planning is a more complicated and difficult job which requires a higher theoretical level and more professional knowledge on the part of the economic administrators.

The economic and capital construction commissions and the organs in charge of production at all levels will undertake to co-ordinate the economic operations of all industries and trades, corporations and enterprises, including those engaged in capital construction. They will help them dovetail the relations between procurement, production and marketing, guide their development along the lines of state plans, and ensure the realization of these plans by working out economic policies and measures with the financial, banking and price control authorities.

The financial authorities and banks will be responsible for the circulation of capital and money throughout the country. They will be empowered to examine and supervise the economic operations of the enterprises, particularly their finances, for a rational distribution of capital funds among the different regions. The labour and supply departments will study the least wasteful use of manpower and materials.

In short, the various organs of economic administration should act according to objective economic laws and develop more ways to achieve good economic management. In face of the new circumstances of the modernization drive and the tasks involved, they will have to study new problems and adopt new measures and will always have more than enough to do. Thus it is completely wrong to assume that a laissez-faire attitude may be adopted towards the country's economic operations.

4. ECONOMIC READJUSTMENT AND MANAGERIAL REFORM

To lay a firm basis for socialist modernization, we must first of all readjust the proportions between the different departments of the national economy and straighten out the economic order. We must also reform the system of economic management and operate the economy according to objective economic laws to lay a solid foundation for the four modernizations. Readjustment and reform must go hand in hand. Without readjustment we shall not be able to undertake reform with a free hand, while certain reforms necessary and possible for the present will facilitate readjustment. But there is also a contradiction between the two. For the purpose of readjustment, it is necessary to strengthen, at least for the time being, the central authorities' unified administration of the economy, whereas reform calls for a decentralization of power. To solve this contradiction, it is generally necessary to undertake readjustment first and reform next and to conduct reform in the course of readjustment and vice versa. Many press articles discussing the system of economic management almost unanimously demand decentralization. However, most of the documents issued by the central authorities in the last couple of years lay emphasis on a unified administration of finances, banking, supplies, the labour force and wages, the prices of products, etc., pointing out the need to observe state discipline in financial and economic affairs. All this reflects the different requirements arising from readjustment and reform, which seem contradictory to each other but share the same goal.

The reform in economic management places a certain measure of responsibility on the enterprises for their profits and losses on the principle of material interests. But as a result of the imbalances in the national economy, many enterprises are suffering from a shortage of raw materials, fuels and power supply and have to suspend production from time to time. They should not be held responsible for failure

to fulfil production targets or even deficits caused by these external factors. Without solving the problem of raw materials, fuels and power supply, it will be very difficult to appraise the performance of enterprises and give them material incentives on the basis of their production achievements and profit earnings. Insufficient power supply compels some plants to suspend production for more than 100 days a year and prevents some newly installed plants from starting operation. A mere shift of power to the grassroots without a solution of such problems will bring the enterprises many more difficulties which they cannot overcome by themselves.

There is much confusion in our pricing. In many cases prices depart from values. Products urgently needed by the state are too cheap, while those not in urgent need are too expensive. Raw and processed materials are too cheap while manufactured goods are too expensive. In these circumstances, if all enterprises assume responsibility for their profits or losses, the production of urgently needed raw and processed materials and of fuel will drop or even cease altogether while manufacturing industries will grow fast, worsening the present imbalances. The present profit margins of some enterprises are not determined by management but by prices. Without a readjustment of prices, it will be difficult to work out a rational profit retention system.

Under the present tax system, some of the tax rates do not favour a readjustment of the business orientation of industries and enterprises. More taxes are being levied on products which are vital to the national economy and the people's livelihood but are in short supply and should be produced in larger quantities, while less are imposed on products which should and can be limited. This does not make for economic management in the light of objective economic laws. Enterprises in many industries, especially in the mining industries, bring in different profits because of different natural conditions. For example, there are large differences between the resources and consequently between the profits of the Daqing Oilfield and

the Yumen Oilfield. Thus different tax rates, including those on resources, should be introduced to make the profit retention system effective.

As some enterprises get more investments and better equipment from the state, they have achieved a higher labour productivity. If the uncompensated use of fixed assets continues, the profit retention system cannot be used on a fair and equitable basis. If we are going to initiate a compensated use of fixed assets, we have to conduct a nationwide appraisal of the fixed assets of state enterprises in the first place. This is an enormous job which cannot be accomplished in a short time.

In sum, a reform in the managerial system requires a good job of readjustment and has to be linked with reforms in other fields. This calls for overall planning and orderly progression. It is impractical to oversimplify the reform and assume that it can be carried out on the strength of a state decree.

A reform in the distribution of supplies must also be based on readjustment. Raw and processed materials, fuels and electric power are in such poor supply that, without unified distrubtion by the state, it will be impossible to meet the needs in vital industries and enterprises. There will be even more waste, and enterprises will have to send out more purchasing agents to hunt for supplies.

As for consumer goods, grain, cotton cloth, cooking oil and non-staple foods are all in short supply and it is still impossible to abolish the state purchase and ration systems. They can only be changed step by step as production rises. For the time being, we can only change parts of the system of the distribution of consumer goods by increasing the number of circulation channels and cutting down the intermediate links. After the rural communes and their subdivisions complete their sales to the state, they should be allowed to market their surplus products on their own. This will speedily increase the production of foodstuffs and create conditions for narrowing

the scope of state purchases and rations and the ultimate abolition of these systems.

The readjustment of prices is also a highly complicated task. The purchasing prices of farm produce, grain in particular, are too low and should be raised gradually. But if the selling prices of farm produce and consumer goods made from agricultural raw materials are raised simultaneously with the purchasing price of farm produce, the livelihood of the workers, particularly of those in the lower income brackets, will be affected. It is irrational to raise only the purchasing prices but not the selling prices of grain and non-staple foods because, with the former exceeding the latter, the commercial departments will face deficits over a long time. They will hardly be able to handle their business by economic means. Thus the prices of consumer goods have to be readjusted along with wage increases.

The reform in the managerial system must be premised on a readjustment of the national economy, that is, the reform should proceed along with the readjustment. This does not mean that there is no way to undertake the reform under present circumstances. While readjusting the proportions of the natoinal economy, we may gradually carry out some necessary and possible reforms. Some of these reforms may be started right away or at an early date. Some of the comrades in the departments in charge of production are used to the existing state of affairs. They seem to have a rigid way of thinking and are full of misgivings about the reform. Our economic administrators should look at things from the standpoint of the overall situation and take a positive approach to the reform in the managerial system in the interests of modernization. On the other hand, our theoreticians should not oversimplify the reform. The national economy is a highly complicated organism, and a single change may affect the whole picture. To avoid confusion in the course of the reform, we should keep the whole situation in mind and take its possible consequences into account. Many of the reform measures should first be tried out in some regions, cities or enterprises

and then applied more widely on the basis of the initial experience. This will help us avoid detours.

The purpose of both readjustment and reform is to speed up modernization. While considering the two tasks, we must also proceed with economic construction, especially the strengthening of such weak links as the fuel, electric power, and building material industries and communications and transport. Some sophisticated equipment will have to be imported to improve our technology. In the next few years, therefore, the state must concentrate its capital investments on key items and ask the various departments and regions to delay or suspend projects which are not urgent. We should carefully consider the economic returns of our investments, build a minimum of new projects and tap the potentials of existing enterprises through technical innovation and transformation. The state should ensure the supply of raw and processed materials, fuels and electric power first to enterprises which produce quality goods needed by the state and the people by using a minimum of these resources. Enterprises producing low-quality goods at a high rate of consumption should be instructed to suspend production and put themselves in a better shape. Only after proper readjustments are made can reform in our system of economic management proceed smoothly.

Chapter IX
SOCIALIST MODERNIZATION OF THE NATIONAL ECONOMY

1. CHINA'S ROAD TO MODERNIZATION

The Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party, held in December 1978, decided to shift the focus of the work of the whole Party to socialist modernization as of 1979. This was a strategic decision.

Marx and Engels pointed out that socialism must be based on large-scale modern production. Lenin said: "A large-scale machine industry capable of reorganizing agriculture is the only material basis that is possible for socialism."[1] Although agriculture has been collectivized in China, most of the farm work is still being done by hand while modern industry remains underdeveloped. Ours is a socialism that is neither fully mature nor perfect. That was why Mao Zedong put forward in 1956 the task of making China a powerful socialist state. At the Third and Fourth National People's Congresses, Zhou Enlai proposed to modernize agriculture, industry, national defence, science and technology by the end of this century so that China's economy might take its place in the front ranks of the world. This is a tremendous political task history has placed upon our shoulders.

Modernization is specially important to China now because, first of all, China embarked on socialist construction with a

[1] V. I. Lenin, "Third Congress of the Communist International", *Collected Works*, Progress Publishers, Moscow, 1965, Vol. 32, p. 459.

very low level of productive forces. After the founding of New China, we carried out land reform in three years and went on to place the means of production basically under socialist ownership in the next four to five years. That period witnessed a big expansion of our industry and agriculture and a marked improvement in the life of the people. This fully demonstrated the superiority of the socialist system. In 1958, however, we began making quite a few errors because we lacked experience in socialist economic construction. In particular, serious damages were done to industrial and agricultural production and the socialist relations of production during the ten years of the Cultural Revolution. We are now some twenty years behind the developed capitalist countries in science and technology and in industry, and forty or fifty years behind them in agriculture. If we do not quickly catch up with the advanced levels in capitalist countries, we shall not be able to prove the superiority of the socialist system to the people of China and the world, nor shall we be able to win ultimate victory over capitalism.

The aim of socialist construction is to satisfy the constantly rising material and cultural requirements of the nation. The livelihood of our workers and peasants improved significantly during the three-year period of rehabilitation and the period of the First Five-Year Plan. In the next two decades, however, the average wages of the workers were hardly raised, while the living standard of the peasants remained about the same except in a few areas where a rapid growth in production enabled people to earn more. The key to improving the people's living standard lies in raising labour productivity, which in turn requires a speedy modernization of industry and agriculture. Until we base our industrial and agricultural production on advanced science and technology and raise labour productivity substantially in both fields, we shall not see any significant rise in the people's living standard, nor an end to the country's poverty and backwardness.

To free China from poverty and backwardness, we have for thirty years encouraged people to work hard and lead a simple life, and will continue to do so in the years to come. But hard work and a simple life are meant to achieve speedy progress in production and create the material conditions for a rich and happy life. Perpetual poverty is not what we stand for.

Furthermore, the socialist relations of production cannot rest indefinitely on backward productive forces. The level of productive forces in China, particularly that in agriculture, is extremely low. That is why we have to adhere to a collective form of ownership in agriculture and, for a very long time, maintain the present system of three-level ownership by the commune, the production brigade and the production team with the production team as the basic accounting unit, which means a low level of public ownership. Meanwhile, the majority of the peasants still have to supplement their income with earnings from their garden plots and household side-lines. This shows that the socialist system is not altogether consolidated in China's countryside. Without a significant rise in productive forces, it will be impossible to consolidate collective ownership and raise the level of public ownership in the communes step by step. Only by effecting the modernization of agriculture through the modernization of industry can we enable the peasants to increase their labour productivity many times, laying the material basis for a higher level of public ownership in the communes and for a switch-over to ownership by the whole people in the future.

In the past two decades we have failed to grasp fully the dialectical relationship between the relations of production and the productive forces under China's specific historical conditions. Forgetting about the state of the productive forces in the country, we exaggerated the extent to which a change in the relations of production might influence the development of productive forces, erroneously pictured the

current contradiction between the two as one of the relations of production lagging behind the requirements of the growth in productive forces, and drew the conclusion that the higher the level of socialist public ownership, the better it would be for the growth in productive forces. This gave rise to the "communist wind" in the countryside where equalitarianism prevailed and manpower and material resources were transferred arbitrarily in disregard of the collectives to which they belonged. The same line of thinking also accounted for the tendency to effect a premature transition to a higher form of public ownership on the basis of the same low level of productive forces. As a result, changes were made in the relations of production which exceeded the requirements of the growth in productive forces. Practice shows that a hasty change in the relations of production cannot promote but rather retards or even undermines the development of productive forces. Thus the fundamental way to consolidate and develop the socialist relations of production is to develop productive forces and accelerate the modernization of the national economy.

Our understanding of the economic sector under ownership by the whole people was likewise inadequate. It seemed to us that unified management and distribution throughout the country was a necessary feature of ownership by the whole people and that the greater the degree of centralization, the better. We failed to see that the level of productive forces and the scientific and technical level in the state industrial enterprises were not high enough for a complete elimination of the distinctions between them, which had been left over from the old society. To bring into full play the initiative of the central authorities, the local authorities, the enterprises and the individual labourers, we should reform the structure of economic management, an important aspect of the relations of production, retain the differences between localities and between enterprises within certain limits, recognize the principle of material interests, and give the localities and

particularly enterprises at the grassroots much power to make their own decisions. Mao Zedong pointed out in his 1956 speech, "On the Ten Major Relationships": "It's not right, I'm afraid, to place everything in the hands of the central or the provincial and municipal authorities without leaving the factories any power of their own, any room for independent action, any benefits."[1] To this day, however, we have not yet fully solved this question in thinking or in practice. The relations of production must protect and promote the development of productive forces. If this question is not settled properly, it will become a big obstacle to the four modernizations.

Finally, it takes time for the dictatorship of the proletariat to be consolidated and developed in China because of the low level of her productive forces. At present this dictatorship takes the form of a people's democratic dictatorship led by the proletariat and based on the worker-peasant alliance in which the peasants are numerically predominant. To consolidate this dictatorship, it is necessary to expand agricultural production rapidly, improve the life of the peasants and consolidate the worker-peasant alliance. For quite some time, the Party's economic policies for the rural areas were not implemented and the productive forces in agriculture were impaired. Agricultural production grew at a slow pace and the peasants hardly fared any better. Instead of consolidating the dictatorship of the proletariat, this development undermined the worker-peasant alliance and tended to disintegrate the basis of the dictatorship of the proletariat. The consolidation of this dictatorship requires a speedy modernization of agriculture in the course of industrialization. The more developed the socialist economy and the faster the people's material and cultural life improves, the higher will be the politico-ideological consciousness of the people and the easier will it be to perfect

[1] Mao Zedong, "On the Ten Major Relationships", *Selected Works*, Foreign Languages Press, Beijing, 1977, Vol. V, p. 290.

our socialist democracy, overcome bureaucracy and consolidate the dictatorship of the proletariat.

We started to build socialism on the debris of a semi-colonial, semi-feudal China which lacked a democratic tradition. To accelerate the modernization of the national economy, we have to change not only those aspects of the relations of production which do not conform to the productive forces but also those aspects of the superstructure which do not conform to the economic base. Since we have established the socialist system of the public ownership of the means of production, we must let the working people run the country and give full scope to people's democracy. Only in this way will it be possible to bring the superiority of socialism into full play and create favourable conditions for the speedy modernization of the national economy. Similarly, only by giving full play to people's democracy and practising centralism on the basis of democracy can proletarian dictatorship be truly consolidated.

Recently, the Central Committee of the Chinese Communist Party raised the question of bringing about China's modernization in her own way. This is a most important question. We often talk about seeking truth from facts. By facts we mean the realities in China. Only by proceeding from China's conditions can we review her experience in socialist construction in a sound way and draw the blueprints for transforming the country in conformity with objective economic laws.

What are China's conditions? As is well known, she is a large country with a quarter of the world's population. Industrial and agricultural production has grown substantially in three decades. In terms of total output, China ranks fifth in the world in steel, third in coal, second in grain, third in cotton, and first in manufactured cotton. But in terms of per capita output, her production and national income are much lower than those of the developed capitalist countries and even lower than those of quite a few developing countries. Since our economic foundation is poor and our people's living stand-

ard is low, improving people's life should have priority in national economic planning. The national economy will not grow fast until the people are adequately fed and clothed and so work with high enthusiasm, making possible a bigger rise in production and, consequently, a gradual rise in the rate of accumulation, an expansion of capital construction and the acceleration of the four modernizations. This is an objective law governing China's socialist economic development. A hasty transition to higher forms of public ownership has been proven impossible in China's socialist transformation. Similarly, we must not blindly seek a high rate of accumulation or development in socialist construction by basing our subjective wishes on what is objectively impossible. The objective law mentioned above was not followed in most of the twenty-one years between 1958 and 1978 during which efforts at capital construction were excessive, retarding the development of the economy in general and of agricultural production in particular, seriously affecting the improvement in the people's life and their enthusiasm at work.

As things now stand, a proper ratio has to be maintained between national accumulation and consumption and between long-term construction and the annual production in agriculture. Since most of the peasants are still leading a hard life, we should devote our attention first to farm production, the collective income and its distribution in the current year and then to short-term construction projects that can be realized in three to five years. When the peasants are better off, they will be in a position to undertake long-term projects. It has been suggested by comrades in many regions that the peasants be given a chance to "recuperate and build up their strength". This does not mean they are to give up hard struggle, but rather that the mistakes and shortcomings in our work are to be eliminated so that they may be able to improve their production and income from year to year. Any construction project will have to be undertaken on the condition that the commune members are guaranteed a higher income and more

food grain in a normal year. Large-scale farmland or water conservancy projects should be based on financial and material resources the state can afford and on labour power the peasants can provide. Machinery should be used wherever possible so that a minimum number of peasants will be recruited for construction work. When they are recruited, they should be paid wages and provided with food grain in accordance with clearly defined regulations. No more projects should be built "on the basis of the resources of the local people with some state subsidies," as the slogan goes, unless a request to this effect is raised by the peasants. The year's production covers not only farming, forestry, animal husbandry and fishing operations but also various side-line occupations. In other words, the peasants should be encouraged to increase their earnings by their particular local resources, whether they live in hilly regions, along rivers and lakes, or near grasslands. Efforts should be made to develop crop cultivation, fish breeding, poultry raising and the processing of farm and side-line produce. The peasants say that the current year's production is like a current account in a bank, while short-term undertakings, such as growing tea, mulberry or fruit trees, are comparable to short-term accounts, and long-term projects, such as cultivating timber woods, to long-term accounts. With their means of livelihood guaranteed from year to year, the peasants will start short-term and long-term projects on their own.

There are 800 million peasants in China. Socialist modernization will be like a building erected on sand if no security is enjoyed by the peasants. Agriculture is the foundation of our national economy. No modernization will be possible without a solid foundation in agriculture. Proceeding from China's specific conditions, Mao Zedong set forth the strategic concept of the revolutionary wars in China, namely, building revolutionary bases in the countryside and encircling and finally seizing the cities from there. The peasant question remains one of primary importance in socialist modernization, in which priority must be given to agriculture. China's agri-

cultural production has developed at a sluggish pace in the past two decades. The people, particularly the peasants, are still leading a hard life. In a country like ours, failure to provide the peasants with a life of security will very likely affect stability and unity across the country.

The fact that China is the most populous nation in the world must also be taken into account in connection with the four modernizations. No modernization has ever been attempted in a country with such a colossal population. Our enterprises and institutions are overstaffed and unwieldy and show a labour productivity or work efficiency many times lower than their counterparts in developed capitalist countries. Modernization and rises in labour productivity will save a huge labour force from among the present army of workers and staff. Once agriculture is modernized, it will need only a few dozen million people at the most instead of the present 300 million if production remains on the same scale. This means more than 200 million people waiting for jobs, which will have to be found in new fields of production. Higher labour productivity without a rational, overall deployment of the labour force will give rise to a serious problem of job placement, which again will hamper modernization.

Is this an insoluble problem? Certainly not. A thorough analysis of China's actual conditions reveals more than one solution.

As mentioned earlier, many new lines of production can be initiated in both urban and rural areas. In rural areas, there is much room for developing a diversified economy and setting up enterprises run by communes, production brigades and production teams. In the cities, people are free to expand the handicraft industries, commerce and service trades as well as short-distance transport, the building trade and other trades on the basis of collective ownership. When the state has mustered enough economic strength, it will organize a large-scale development of the country's vast unexploited territories. The trouble lies in our structure of economic manage-

ment which has blocked many channels of developing production by binding the working people hand and foot. The nation's labour force can be properly deployed once people are allowed to do all socially necessary work.

Will all this run counter to the general orientation of modernization? Of course not. It will help secure proper means of livelihood for more than 900 million people, which will pave the way for modernization. When everybody creates wealth, all will be contributing to the national accumulation and to the four modernizations. Of course, some guidelines of modernization are involved here. For example, will it be necessary to adopt the latest technology in every sphere of production? In China's socialist modernization, we should continue to develop big, medium-sized and small enterprises simultaneously and employ mechanized, semi-mechanized and manual means at the same time. To lay the basis for our scientific and technological advances, it will be necessary to set up a number of enterprises using the world's latest technology. But it will also be necessary to effect a vigorous expansion of enterprises run by localities, by people's communes and their subdivisions or by urban co-operatives, which assume sole responsibility for their profits or losses and which do not contend with the large industries over raw material and power supply. While purchasing advanced technology from abroad, we should consider whether to aim at the highest or a relatively low degree of automation. The latter will bring the following advantages: (1) less investment and speedier construction; (2) easier mastery by our technical force; and (3) a faster change over to manufacture on imported models. Though the level of automation is a bit low, it will still raise our labour productivity several times under improved management. This will enable us to accelerate modernization through self-reliance. Since wages in China are several times lower than those in some other countries, Chinese products will remain competitive on the world market even if her labour productivity is two or three times lower than theirs. Rising produc-

tion and technical advances will enable China to raise the level of her modernization.

2. MODERNIZING AGRICULTURE

Speaking of the growth of productive forces, agricultural production in most of China remains what it was in the highly developed capitalist countries at the beginning of this century. Faster progress has been made in a few regions, but even there the level only comes to what was achieved in those countries in the 1940s. Building socialism and modernizing agriculture on such a basis involve many difficulties. But since agriculture is the foundation of the national economy, failure to change its backwardness at good speed will mean a delay in the modernization of industry. Thus the modernization of agriculture merits special attention.

The material conditions for agricultural production have greatly improved since the founding of the People's Republic. We have constructed large numbers of farmland and water conservancy projects, harnessed the big rivers with initial success, built 330 million *mu* of farmland that provides us with high and stable yields, and enhanced our capabilities to cope with natural disasters. The output of chemical fertilizers grew from 200,000 tons in 1952 to more than 40 million tons in 1978. The nation produced over 110,000 tractors in 1978, as against less than 10,000 in 1965, in addition to more than 300,000 walking tractors. We should make good use of these material conditions to speed up the development of agriculture and work for its modernization.

Modernizing agriculture means replacing China's antiquated methods of farming by those of advanced science and technology. Our task at the present stage is to promote scientific farming and the gradual mechanization of agriculture. The Chinese Communist Party grew in the rural areas and our veteran cadres all know something about directing agricul-

tural production. But we are not entirely free from the limitations of a small-scale peasant economy, knowing little about scientific farming and the mechanization of agriculture. Therefore we must encourage a conscientious study of agricultural science and its application to local conditions, lest we give uninformed directions.

Scientific farming calls for the solution of a series of problems, such as the improvement of seed strains, the scientific application of fertilizers, soil improvement and increasing the multiple crop index.

Since the Second World War, agriculturists in many countries have attached foremost importance to the improvement of seed strains, calling it a "Seed Revolution". Agriculture in China has a history of several thousand years during which many fine strains of seed have been bred. New China has achieved much success in seed improvement. Unfortunately, work in this field was disrupted and many of the scientists and technicians were brutally persecuted during the Cultural Revolution. It is high time to resume and expand the work. The birth of genetic engineering has opened broad vistas for breeding new strains, promising more impressive results in this field. Apart from promoting scientific research and experiments, we should pay attention to popularizing new strains according to local conditions. Instead of being popularized indiscriminately, the new strains should be adopted on the basis of the climatic and soil conditions in different areas. Seed-breeding centres should be established to preserve pedigree strains, and experimentation stations and seed companies should be set up everywhere in the country to help communes, production brigades and teams change the old tradition of limiting themselves to their own seeds. More new strains should be tried out and popularized in low-yielding areas.

China has rapidly increased her chemical fertilizer production in the past two decades. However, the chemical fertilizers seem to become less and less effective in boosting farm yields.

One reason is the decrease in the use of organic manure which should be applied simultaneously with chemical fertilizers to achieve good results. Sole reliance on chemical fertilizers is not fully effective, perhaps even damaging to the soil structure. While extending the use of chemical fertilizers, therefore, we must also apply more organic manure and develop methane resources as an excellent means of fertilization. Another problem lies in the overemphasis on nitrogen to the neglect of other fertilizers. Organic manure contains all elements essential for crop growth whereas a chemical fertilizer generally contains one main element which cannot meet the multiple requirements of the crops. Composts containing a variety of elements should be built on the basis of soil and crop conditions. This will naturally call for soil surveys and the rational planning and cultivation of crops suited to local conditions.

Soil improvement is also crucial for raising crop yields. Scientific research institutes should study different ways to improve different kinds of soil, which may be clayish, sandy, acid or alkaline. Soil improvement will increase farm production when it is combined with other measures, such as the application of more organic manure and better irrigation and drainage.

Since China has a large population but a limited amount of arable land, intensive farming has to be adopted in most regions. The multiple crop index has to be increased, and close planting applied rationally. We used to grow three crops in two years in the northern parts of the country and two crops a year in the south. The current practice is to plant two crops a year in the north, and three in the south. This has been an important means of increasing the nation's grain output. But grain output cannot grow as the multiple crop index does. In areas with a short frost-free period, such as the southern banks of the Changjiang (Yangtze) River, two rice crops do not necessarily yield much more than a single crop, while the costs for growing two crops are much higher and the bur-

den on the labour force is particularly heavy when one crop has to be harvested almost at the same time as the other one is being sown. Peasants in many regions have much to complain about this practice, and the authorities should listen to their opinions on farming according to local conditions. In some regions it may be advisable to concentrate on the semi-late rice crop. In others two rice crops may be grown in half of the fields along with a single crop in the rest, so as to distribute the labour force more evenly, lower the costs and increase the income of the peasants. This is a controversial question which requires further study.

In the mechanization of agriculture, there has been a general tendency to increase the machine-ploughed acreage without considering the actual economic gains. The main purpose of mechanization is to replace living labour with materialized labour, raise the labour productivity of the peasants and use the manpower thus saved for other pursuits, including non-agricultural ones. But investigations show that we have not achieved this purpose. Some of the problems are:

1. Many technical questions remain unsolved. So far the best results have been obtained in the mechanization of irrigation and drainage, which has proved effective in increasing farm yields and the peasants' income. Threshing has been mechanized in some areas, but not everywhere. Rice-transplanters and harvesters, however, are not yet up to standard. People have always been keenly interested in tractors, taking the tractor-ploughed acreage as the major indicator of mechanization. But there are more mountainous and hilly regions than plains in China, and the farmland in the former regions are too small and scattered to be ploughed by tractors. In particular, tractors do not save much more manpower than oxen in small paddy fields, although they cost much more. Communes, production brigades and teams have been buying tractors mainly for transportation and seldom for field work. They should have bought trucks instead.

2. The equipment is incomplete and its efficiency low. In the first place, there is a lack of tractor-drawn farm implements to go with the tractors. In foreign countries, a tractor serves several purposes and does several jobs at the same time, including ploughing, hoeing, sowing and fertilizing. In China a tractor serves only one or two purposes and does one job at a time, showing a difference of several times in efficiency. Secondly, some of the most labour-consuming jobs are still being done by hand, such as weeding in the dry fields in the north and the "three back-bending jobs" in the southern paddy fields — rice-transplanting, weeding and harvesting. Thus the tractors have not saved manpower, which remains insufficient. What is the advantage of mechanization if little manpower is saved by machinery?

3. A deadline has been set for the mechanization of agriculture all over the country regardless of the different natural and economic conditions in different regions. Tractor-ploughing, which may be popularized on the plains, needs much study in the case of the small plots of land in mountainous and hilly regions. Actually ploughing presents no problem in the rice-growing areas south of the Changjiang River on account of their dense population and limited arable land. In these areas, the problem is how to handle the "three back-bending jobs" and short-distance transport, including transport across the fields, which consume much manpower. There are many poor regions, mainly mountainous regions, in Northwest and Southwest China. The peasants there, who are not getting enough to eat, are not yet in a position to undertake mechanization. They cannot afford to use machines even if they buy them with bank loans because the electric power and diesel oil to be used and the repairs to be made are all beyond their financial means. To do economic work, one must know something about business accounting and act in line with economic laws. Mechanization may be started in areas where the conditions are ripe, and should be postponed where they are not. Of course we should strive

to create the necessary conditions if they do not exist, but no attempt should be made to rush people into action in an uproar. In 1958, we sustained serious losses by setting up people's communes in an uproar. We would incur bigger losses by pushing the mechanization of agriculture in a similar fashion and setting a deadline for its completion regardless of objective conditions.

4. Mechanization of agriculture in China is made difficult by her terrain and the limited amount of her arable land. Each farmer cultivates an average of 0.33 hectares of land, as against 0.8 hectares in Japan, 60 hectares in the United States and about 40 hectares in Western Europe. Although agricultural collectivization has been completed in this country, a crop field generally comes to only a few hectares on a plain and about one-third of a hectare in a hilly region. The terraced fields in the mountains are even smaller. The smaller the field, the more difficult it becomes to use farm machinery there. Japan has already surpassed the United States in labour productivity in many branches of heavy industry, but not in agriculture, where her labour productivity is several times lower than that in the United States because of her dense population and limited arable land. The farming methods in the United States, it seems to me, are applicable only to some of the sparsely populated regions but not to most places south of the Great Wall. Japan's experience is perhaps more important for the densely populated regions in China.

Another difficulty in mechanizing China's agriculture lies in the fact that our farm machines, chemical fertilizers and insecticides are priced several times higher than those in developed capitalist countries while our payment for labour is several times lower. Mechanization means substituting materialized labour for living labour. It becomes economically feasible only when the amount of materialized labour expended is much smaller than the amount of living labour

saved. For this reason, even if mechanization in China creates as much productivity as in other countries, they may use 10,000 yuan's worth of materialized labour to replace scores of thousands of yuan's worth of living labour whereas we may be doing just the opposite. Thus we must carefully work out the budget for our farm mechanization and see the financial implications. Some comrades say that we should concern ourselves only with the political significance of farm mechanization and may forget about its financial aspects. This is wrong. How can anyone do economic work without considering finances? Who will bear the consequences of a deficit? If the present waste goes on, farm mechanization may result in a financial deficit of tens of billions of yuan a year, which neither the state nor the peasants can afford to make up.

In the process of modernization, it will be necessary to change the structure of our rural economy step by step. Our agriculture is still based on manual, partially self-sufficient production. Modernization will bring tremendous changes to our rural economy, which may be envisaged as follows:

1. Modernization will develop the division of labour within agriculture into specialized production. We now advocate "taking the grain as the key link in an all-round development and concentrating on certain crops according to local conditions". This is a big advance over the previous lopsided stress on "taking grain as the key link". Mechanization requires a highly developed division of labour and specialization. A production team is now engaged in many lines of production and doing a bit of everything, which makes mechanization difficult. A highly developed division of labour and a high rate of utilization of machinery make it possible for industry to carry on uninterrupted production throughout the year. The seasonal nature of agricultural production accounts for a lower rate of utilization of machinery, which can nevertheless be raised by concentration on a few crops. Growing a bit of everything would require the

purchase of different kinds of machinery, each of which can only be used for a few days or a couple of weeks in a year. This is obviously uneconomical. Farm mechanization in any country, capitalist or socialist, requires a farm and even a region to concentrate on one or at most two or three crops. The United States, for instance, is divided into crop belts, each devoted to the cultivation of wheat, maize (fodder) or cotton. Specialization increases the utilization rate of farm machinery and promotes the mechanization of each and every operation.

Specialization is necessary for farming as well as forestry, livestock breeding and fishery. Mechanization of agriculture in developed capitalist countries started with farming, in which it started with grain production, and extended to forestry, livestock breeding, fishery and other fields. This is particularly true of livestock breeding, which has been mechanized through the establishment of factory farms for raising cattle, poultry, pigs, etc. Farming, forestry, livestock breeding and fishery are of course interrelated, and this calls for extensive co-operation between crop, forest and cattle farms. Division of labour and co-operation are necessary between the different branches of agriculture as between the various industries. Such co-operation, which has been conducted within a single farm, should be practised between different farms and regions.

2. Progress in specialization will convert the first and last few work processes into independent professions in a chain of co-operation. For instance, seeds which are now bred by crop farms will be supplied by seed farms or companies, animal feed will come from feed companies, and mechanized farm implements and chemical fertilizers will be provided by industrial departments or special companies like farm machinery and chemical fertilizer stations. This separates the first few processes of farm production from crop farms. Transportation, processing and other jobs which follow harvesting will be handled by specialized companies, which

means the separation of the last few processes from crop farms. More division of labour demands closer coordination between the succeeding processes, which form a continuous line of operation.

Such a fine division of labour promotes the mechanization of every link in farm production and raises the scientific and technological level in seed improvement, the preparation of feed and compost, etc. In Chinese farming, the auxiliary processes, i.e., the first and last few processes, are consuming more manpower than the main ones. It will be difficult to raise labour productivity without mechanizing the former through a scientific division of labour.

3. Specialization and co-operation are a unity of opposites and are interdependent. Modernization of agriculture requires co-operation between different farms and between industry and agriculture and even the integration of the two. History has seen several stages of agricultural-industrial co-operation. The handicraft industry separated itself from agriculture in slave and feudal societies. At first the former was an appendage of the latter and the two were combined in the family. As the old saying goes, "the man tills the land, the woman weaves cloth." Then the handicraft industry acquired independence in the form of handicraft shops, but it remained in a subordinate position in the rural areas. Handicraft manufacture developed extensively in capitalist society. After the emergence of large-scale machine production, industry gradually overwhelmed agriculture and forced the latter into a subordinate position. Mechanization of agriculture and the rise of factory farms will further consolidate industry's leading position. Of course, this will not lessen the importance of agriculture, which will remain the main source of food and provide much of the raw materials for light industry.

The modernization of agriculture means its socialization. The production teams and brigades and communes, which are partially self-sufficient producers today, will produce

entirely for society after mechanization. Socialized production will break the barrier between state and collective economy, and all forms of joint agricultural-industrial or agricultural-industrial-commercial companies will be established between the two economic sectors or between communes. Enterprises which are members of these companies will be both united with and independent of one another, each being responsible for its own profits or losses. Simliar companies in capitalist countries, set up by financial capital or industrial and commercial capital, dominate and exploit smaller agricultural enterprises and particularly individual farmers by various means. The joint agricultural-industrial companies in a socialist country, set up under the leadership of state economy, make it obligatory for state enterprises to support and achieve common prosperity with commune enterprises instead of exploiting them. This will free our countryside from poverty and backwardness and from its exclusive devotion to agriculture. It will gradually become a new socialist countryside with a high level of science and culture, where farming, forestry, animal husbandry, side-line production and fishery will all flourish, and agriculture will be integrated with industry and commerce.

In a country like China, mechanization of agriculture cannot be accomplished overnight. While aiming high, we must adopt a scientific and down-to-earth approach.

3. MODERNIZING INDUSTRY

Modernizing the national economy means developing industry, agriculture and national defence on the basis of advanced science and technology. Science and technology in old China lagged some fifty years behind the level in developed capitalist countries. The distance was shortened in the seventeen years after the founding of New China, but scientific research was disrupted and no progress was made in the ten

years of the Cultural Revolution. There is a serious shortage of scientists and technicians because they have always been few in China and young people have not been able to pursue their studies for at least ten years. This is a big obstacle to the four modernizations. The industries built in the 1950s were technically advanced at the time. But the advanced industrial countries have changed their technology several times in the past two decades while we have made little progress, widening our gap with those countries. We cannot move into the front ranks of the world in industry, agriculture and national defence by the end of the century unless we make a big effort to catch up.

Can we catch up with and surpass the developed capitalist countries? World history provides many examples of latecomers surpassing old-timers. The United States and Germany learned from Britain and went far ahead of it in less than fifty years. After the Second World War, Japan and West Germany recovered with U.S. aid, but in twenty years both caught up with and even surpassed the United States in many fields. The Chinese people are intelligent and hard-working, and China has laid a fairly good basis in heavy industry and science and technology. Modernization can be realized if we solve the following questions:

1. We should reorganize the ranks of our scientists and technicians, bring their talent and wisdom into full play, and raise the level of our science and technology. Large numbers of scientists and technicians, particularly the older specialists, were persecuted by Lin Biao and the Gang of Four. We must not only reinstate them politically but also make proper arrangements for their work and livelihood and provide necessary facilities for their work. We should make a nationwide survey of our scientific and technical personnel and help specialists to return to their professions. A waste of the scientific and technical force is even more serious than that of financial and material resources.

New scientists and technicians have to be trained in earnest. Since we lack the resources to set up a great number of universities and colleges, scientists and technicians have to be trained by a policy of "walking on two legs", i.e., expanding both regular and spare time education. Special courses should be conducted for college graduates of the Cultural Revolution years to make up or advance their studies. Bigger factories should run spare time colleges and select young workers and staff members for full-time or part-time study. More T.V.* and correspondence schools should be set up so that all young people wishing to study may have a chance to do so.

Examinations should be given to industrial and office workers and their performances reviewed at regular intervals so that some may be promoted or transferred to more important jobs. Young men and women who study hard in their spare time should be enabled to learn more at suitable jobs.

Joint research projects should be undertaken by scientific research institutes, universities and colleges, industrial and mining enterprises, and rural people's communes for the double purpose of solving crucial technical problems and breaking deadlocks in academic research. To this end, the leading organs should sponsor joint research plans and cooperation among different units to avoid any duplication of effort. Academic symposiums should be held regularly and the results of research exchanged. The policy of "letting a hundred schools of thought contend" should be upheld. Truth can only be tested through practice, and no rash conclusions should be drawn by anyone in authority.

2. Technical innovations should be introduced continuously in all fields. While setting up advanced enterprises, we should also enable the old ones to tap their potential by adopting new technologies and trying out new products. Modern science and technology are making advances every

* T.V. schools are those which teach courses on television. Students take exams and receive diplomas just as other college graduates. — *Trans.*

day. Any advanced factory will become a backward one in five or ten years if it stops improving its technology. In capitalist countries, people are studying the changing market needs and making forecasts for at least ten or twenty years. Because of our conservatism and self-complacency over the years, many of our products which once led the international market are no longer popular. Things like this must not be allowed to continue.

The backward scientific and technical level in many of our state factories has to do with the structure of economic management, which now stands as an obstacle to scientific and technical progress. State factories should steadily renew their technology and equipment and try out new products. But under the present structure of economic management, an enterprise has no money to do so. To renew its equipment, it must submit a plan to the higher authorities for appropriations. It also hands over most of its depreciation fund to the higher authorities and has no power to use it. The overhaul fund allocated by the state can only be used to put the equipment in its original shape, while any scheme for technical innovation must be reported to the higher authorities for approval as a capital construction project. Many enterprises requested state appropriations to the sum of a few hundred thousand or a few million yuan for making technical innovations which might bring them several times more than the investment in a year or two. More often than not these requests were shelved because they were not "key projects". Many enterprises incurred an annual deficit of several or even ten million yuan, which was covered by state subsidies. If these enterprises were granted a similar amount for technical innovation, they would become profitable businesses. But such requests were often turned down. If we do not change such a structure of economic management, we will never reach the world's advanced levels. An enterprise must have its own funds, including a depreciation fund, as well as retain part of its profits for

tapping its potential through technical change and should be able to get bank loans for the same purpose. It should change to better technology during overhauls or renewal of its equipment. The irrational classification of technical innovation as capital construction subject to approval by higher authorities must be discontinued. State investments in capital construction should mostly be used for the reconstruction and expansion of existing factories. The present method of using two-thirds of them on new factories and only one-third on existing ones should be reversed. Industrial modernization must be carried out from our present basis under the policy of "walking on two legs", that is, building new factories while improving the old ones. The latter is the most effective method of achieving a faster industrial growth.

All factories must continuously improve the quality of their products and try out new ones. But since trial-production has to be approved and the expenses allocated by higher authorities, the enterprises are virtually deprived of the right to try out anything on their own. Many products have remained the same for two decades and have lost their competitiveness. As a result, a number of the best-selling goods on the international market have become unsalable. All factories must be given the financial means to improve quality and increase variety. In capitalist countries, manufacturers turn out an endless stream of new products to suit the changing market demand. China's export commodities are monopolized by the foreign trade departments. Producers make goods behind closed doors without seeing the market abroad or knowing the changing demand there. How can such exports be expected to compete with foreign goods on the world market? Chinese textiles were once highly competitive internationally. But as the textile mills have no power to import high-grade dyestuffs or sophisticated finishing equipment, they can hardly increase exports and are compelled to export raw silk or blank cloth, leaving much

of the profit to foreign capitalists. This state of affairs must not be allowed to continue.

The articles of daily use sold on the home market have hardly improved in the past two decades, and some have even worsened. The increases in variety or colour are few. In addition to the monopoly purchase and marketing of products by state commerce and the producers' lack of funds to try out new goods, this is also due to excessive control over the prices of new products. These products are usually turned out in small quantities and at high costs. The producers should be allowed to sell them at high prices and cover any possible loss through profits made on old products. But many new products have to be delivered to state commercial agencies for sale at low prices and the losses are covered by the financial departments, which again involves the question of approval by the higher authorities. This practice, claimed to be an encouragement for the trial-production of new goods, actually hampers it. Bearing in mind consumers' psychological preference for new products, manufacturers in capitalist countries offer them new goods at high prices every year, mark down the prices after starting mass production, and then bring out newer products. When their living standard rises, our labouring masses will not content themselves with old products that have remained the same for one or two decades. We should make good use of the role of the market and the law of value to encourage the production of new goods and see to it that a great many top-quality, famous-brand products are turned out to meet market demand at home and abroad.

3. The economic structure should be reformed step by step in the course of industrial modernization. Our industrial production has been socialized, and there are already co-operation and division of labour between the different branches of industry. However, the level of industrial modernization has risen steadily abroad in the past two decades, bringing changes to the economic structure. The

present structure of our industrial economy conforms to the conditions in the 1950s and not to the current level of modernization. Thus it has to be reformed for the purpose of catching up with and surpassing advanced world standards. The following questions are involved in the reform:

(1) Co-operation should be developed between specialized units in place of the present structure under which the enterprises tend to be "large and all-inclusive" or "small but all-inclusive" ones. In industrially advanced countries, complicated machinery and equipment are produced jointly by a number of mills. The spare parts and accessories are often made in many mills, which may be located in different countries, and are assembled and tested in one of them. The auxiliary services preceding or following the production process are provided by specialized companies, which may supply the raw and semi-finished materials, repair the machinery and equipment, sell the finished products, or cater to the daily needs of the workers and staff. Closer co-operation between specialized producers means higher labour productivity, better quality and lower production costs.

The factories and mills built in China since the 1950s show a low efficiency because they are mostly "big and all-inclusive" or "small but all-inclusive" ones. China has several ministries of machine-building and a great number of machine-building plants, which have enormous potential. But every big or medium-sized plant operates a large repair shop to make its parts and spare parts, resulting in much waste. Specialization and co-operation in China should be much easier than in a capitalist country because our means of production are under socialist public ownership and nationwide economic co-operation can be arranged through state planning. But the conventional practice of putting each industry under the exclusive control of one ministry as well as the ways of handling plans, supplies, labour forces, taxes, and prices have all hindered co-operation between specialized producers.

The same is true of the supply of raw and semi-finished materials and other capital goods. In developed capitalist countries, they are handled by specialized companies. In China, they are distributed by the allocation authorities and the procurement and sales departments of the industrial ministries through administrative channels. Conferences on the allocation of supplies are held every year and plans for their distribution are submitted for approval at various levels. But all this resulted in purchasing agents hunting for goods everywhere. While capital goods are overstocked in warehouses, they are unavailable to those who badly need them.

The service trades are highly developed in many capitalist countries where questions like housing and food for the workers and staff are solved through social channels. In China, these questions have to be solved by the enterprises or by the workers and staff themselves. Factory leaders have to spend a lot of time looking after the livelihood of the workers and staff, who are nevertheless unable to devote all their energy to work because of difficulties in daily life.

What we should do is to operate the economy through various enterprises rather than through so many administrative organs. One company may specialize in a single product, or a joint company may turn out several products. Industrial, agricultural and commercial enterprises may also form complexes. All this will promote co-operation on the basis of specialization.

(2) Industrial modernization also involves the question of a rational distribution of industries. In capitalist countries factories and mills are concentrated in a few large industrial areas, the big cities are overcrowded, and there is a wide gap between the rich and poor areas. China's industries used to be concentrated along the coast, particularly in some large cities. Dozens of new industrial areas have been built in the interior areas since the founding of New China, but there still remains a fairly big gap between the rich and poor areas. This question merits special attention in our industrial con-

struction. Our aim is to build industry with greater, faster, better and more economical results. From a short-term point of view, building factories in big cities and old industrial regions requires less investment and brings quicker returns. From a long-term point of view, however, this will lead to an increasingly irrational distribution of industry and population. Thus in our long-range industrial planning, we should systematically provide for the building of new industrial areas in the interior and the establishment of most small factories in medium-sized and small cities and in rural areas. Factories like those for the processing of farm produce have closer ties with agriculture than with other branches of industry. They should develop in the direction of agricultural-industrial integration and can be run by counties or communes. This makes it necessary to expand transportation facilities in the interior, build up small towns there, and provide housing, food and other consumer goods for people in these new industrialized areas so that they can enjoy a life of security instead of constantly looking for jobs elsewhere. Some of the young men and women in the larger cities may also be willing to work there.

4. The advanced technology in foreign countries should be imported and utilized under the policy of relying mainly on our own efforts while seeking assistance from abroad.

All countries must utilize the advanced technology produced abroad in their modernization of industry and agriculture. This is an essential means of modernization. The United States learned from the advanced technology of Britain and other countries and developed its own on that basis, enabling itself to outstrip Britain and lead the world in a few decades. Japan learned mainly from the United States and also from other countries and was good at creation. Thus it has been able to catch up with the United States in the short span of twenty years. To accelerate the four modernizations, we should import advanced foreign technology on a selective basis while upholding independence and self-reliance. We

must not cut ourselves off from the outside world and remain complacent and conservative.

Mao Zedong all along stood for learning from the advanced science and technology of other countries on the basis of self-reliance. In "On the Ten Major Relationships", he said: "Our policy is to learn from the strong points of all nations and all countries", adding that ". . . In the natural sciences we are rather backward, and here we should make a special effort to learn from foreign countries."[1] While stressing self-reliance, he was never against foreign aid. It was with Soviet aid that we laid the initial basis for industrialization in the period of the First Five-Year Plan. Later Mao Zedong personally approved the plan to import several dozen sets of foreign equipment, particularly chemical-fertilizer and petrochemical equipment.

After the smashing of the Gang of Four, the Central Committee of the Chinese Communist Party formulated the policy of introducing foreign investments. Thus the purchase of advanced foreign technology, machinery and equipment has developed into the acceptance of foreign loans and then into permission for foreign firms to establish joint ventures with China on Chinese soil within prescribed limits. As an important measure to accelerate the four modernizations, this will also enhance our capabilities to build the country through self-reliance. To use foreign technology effectively, we should solve the following problems:

(1) While importing advanced technology and equipment, we should consider whether we can handle them technically and managerially. Without full preparation in these respects, we may not be able to ensure the normal operation of the imported equipment and may incur enormous losses. Thus importation must be accompanied by an intensified training of technicians, skilled workers and managers, the

[1] Mao Zedong, "On the Ten Major Relationships", *Selected Works*, FLP, Beijing, 1977, Vol. V, pp. 303-304.

formation of a strong leadership in advance, and the dispatch of specialists and skilled workers to the related foreign plants for on-the-spot training. We had no experience in the early years after liberation, but we successfully completed the 156 major projects introduced from the Soviet Union. The conditions we have today are much better. Although we are building on a larger scale and introducing more sophisticated technology, we can overcome our difficulties by taking them into full account and adopting proper measures.

(2) To be able to repay our debts, we must work out an overall plan for the use of foreign investment. Projects must not be launched all at once, and short-term projects should be undertaken simultaneously with long-term ones so that we may use the income from the former to finance the latter. While large projects are necessary, they require more investment and a long time to complete, and the credits involved can hardly be repaid in a short time. Priority should thus be given to the more profitable light industrial enterprises which need less investment and take a shorter time to build. Their products can soon be exported, enabling us to repay our debts. Big projects constructed with foreign investment, such as oil-mining and coal-mining, should be built on the basis of compensatory trade, that is, repayment for foreign investment in the form of exports. We may also build some badly needed projects, such as iron and steel plants, within the limitations of our resources. Even if they do not produce large quantities of exports, they will help us reduce imports and save foreign exchange. In short, we should balance our foreign exchange payments so as to minimize our foreign debts.

(3) It is necessary to handle correctly the relationship between self-reliance and the adoption of advanced foreign technology. By bringing in advanced technology, we do not mean depending on foreign aid but improving our own scientific and technological level and our ability to build the country through self-reliance. Learning from other countries

should therefore be combined with our own creative effort. Many factories which imported foreign equipment were interested only in its installation and commissioning but never bothered to study the technology. They sealed the blueprints and did not want to share them with plants and research and design institutes responsible for the manufacture of similar equipment. As a result, we could not manufacture the equipment several years after importing the foreign models, to say nothing of improving on them. We shall never realize modernization through mere dependence on imported equipment, nor shall we ever catch up with advanced world levels by copying foreign models without making improvements. Since other countries are carrying out continuous technical innovations, we shall always crawl behind them if we keep copying their products as they are. All factories and mills that import advanced foreign technology and equipment are obliged to work in close co-operation with the units concerned, particularly manufacturers of similar machinery and equipment and their research and design institutes, make updated studies of advanced technology, and produce and improve upon foreign models.

5. We have to improve management of the enterprises and of the whoel economy. Modernized management and technology are the two wheels of the chariot of the four modernizations. Some of our industrial enterprises compare fairly well with their foreign counterparts in equipment, but their efficiency is several times lower. We have imported various kinds of advanced equipment, but employ several times more people to handle them. The reason is poor management. Given proper management, our production efficiency will multiply on the same equipment. Advanced technology and equipment cannot play their part without good management. Some people foolishly set politics against economics, professional work and technology, indulge in empty talk about politics and spread the fallacy that experts should be directed by non-experts. As a result, some of the

leaders of our enterprises know nothing about management or technology. This should be changed completely.

We must review our positive and negative lessons in economic and enterprise management in the past three decades and learn from the managerial experience of other countries. While importing advanced technology, we should also study the related methods of management. Production technology is intertwined with economic management. No advanced production technology can play its role before bureaucracy in management is overcome. In our state-owned factories and mills, the administrative setup is unwieldy, the job responsibilities are not clearly defined, and labour productivity is low. This is out of keeping with modern production. All enterprises that import advanced machinery and equipment should at the same time learn from foreign systems of enterprise management so as to employ less manpower, achieve higher efficiency, improve quality and reduce costs. While learning from foreign managerial methods, we in a socialist country must naturally bring into play the superiority of the socialist system and reject the decadence of capitalism. But we should distinguish the scientific management of large-scale modern production from capitalist decadence and must not confuse the two. In socialist countries, the labouring people are masters of the country and their initiative and creativeness can be brought into full play. The bureaucratic ways of management in many enterprises are not only at variance with modern production but also run counter to the socialist system. They should be changed without delay.

Chapter X

CLASS STRUGGLE AND CONTRADICTIONS AMONG THE PEOPLE

1. CLASS STRUGGLE IN A SOCIALIST SOCIETY

The theory of class struggle is an important part of Marxism. Marx and Engels attached great importance to class struggle, which varied in content and form in the course of historical development. History has witnessed the class struggles between slaves and slave owners, between serfs or peasants and feudal landowners, and between the proletariat and the bourgeoisie. Marx pointed out that the class struggle between the proletariat and the bourgeoisie necessarily leads to the dictatorship of the proletariat and that this dictatorship only constitutes a transition to the abolition of all classes and to a classless society. Marx and Engels predicted that classes will no longer exist in a socialist society in which the means of production are no longer owned by the capitalists but by society as a whole. Envisaging the basic characteristics of a future society on the basis of general laws, they never tried to visualize the concrete process of the abolition of classes under the dictatorship of the proletariat.

Proceeding from the concrete conditions in Russia after the October Revolution, Lenin pointed out, "We know perfectly well that classes have remained in our country and will remain for a long time to come; and that in a country with a predominantly peasant population they are bound to remain

for many, many years."[1] In a country with a peasant majority, the worker-peasant alliance forms the basis of proletarian dictatorship. The proletariat must ally with the peasantry before it can exercise dictatorship over the bourgeoisie. The Soviet Government of Workers, Peasants and Soldiers was precisely the concrete form of the dictatorship of the proletariat in the Soviet Union. By the end of 1936, the socialist transformation of the ownership of the means of production had been basically completed in the country, whereupon Stalin declared that the exploiting classes no longer existed in the Soviet Union, that there were only the working class, the peasantry and the intelligentsia, and that, consequently, the class struggle between the proletariat and the bourgeoisie had come to an end. His analysis basically conformed to the conditions in the Soviet Union at the time. But he was not fully aware of the remaining class struggle and made some errors in theory and practice.

In the spring of 1949 when China's democratic revolution was approaching victory and her socialist revolution was about to begin, Mao Zedong pointed out that the principal contradiction at home would be the contradiction between the working class and the bourgeoisie. The political power we were going to establish after the victory of the revolution, he said, would be a people's democratic dictatorship led by the working class and based on a worker-peasant alliance. Such a people's democratic dictatorship would be a special form assumed by the dictatorship of the proletariat under China's historical conditions. Mao Zedong's theory about the dictatorship of the proletariat in China was a highly important one because he clearly defined the peasants' status in the political power and treated the contradiction between the working class and the national bourgeoisie as one within the ranks of the people, set-

[1] V. I. Lenin, "Tenth Congress of the Russian Communist Party (B)", *Collected Works*, Progress Publishers, Moscow, 1965, Vol. 32, p. 250.

ting forth the policy of eliminating the bourgeoisie by uniting with it. At the same time, he emphasized that our state apparatus would exercise a double function: suppressing the class enemy and protecting people's democracy. By 1956-57, agricultural co-operatives had been established universally in the country and capitalist industry and commerce had changed over to joint state-private operation by whole trades. These developments brought fundamental changes to the class relations in the country and the bourgeoisie was virtually deprived of the economic basis for its existence. The bourgeois began to fade away as a class but remained in existence because the former capitalists retained part of their right to exploit the labouring people by drawing a fixed interest on their capital. The bourgeois ceased to exist as a class when payment of their fixed interest was stopped in 1967, which meant they could no longer exploit people by their ownership of the means of production. Of course, a small number of people among them are hostile to socialism and the bourgeois ideology still has much influence on society at large. Instead of being a proof of the continued existence of the capitalists as a class, however, this only indicates the presence of the remnant forces of the bourgeoisie. No new society can be entirely free from the remnants of an old one. This situation, coupled with the bourgeois influence from other countries, accounts for the fact that class struggle is not entirely over. In particular, the ideological struggle between the proletariat and the bourgeoisie will go on for a long time. Ideologically China suffers from the influence of the bourgeoisie as well as that of the feudal class, and a struggle must be waged against both.

Analysing the changes in class forces in the country, Mao Zedong said in his 1957 report, "On the Correct Handling of Contradictions Among the People": "Today, matters stand as follows: The large-scale, turbulent class struggles of the masses characteristic of times of revolution have in the main come to an end, but class struggle is by no means entirely

over."[1] At the time he laid much stress on the correct handling of contradictions among the people as a general subject, pointing out: "In the conditions prevailing in our country, although the present class struggle partly consists of contradictions between the people and the enemy, it finds expression on a vast scale in contradictions among the people."[2] He stated clearly even then that the whole Party should shift the focus of its work to the modernization programme centred on revolutions in the technological and cultural spheres.

The class struggle which Mao Zedong said would remain in socialist society bears some important features in content and form, which distinguishes it from the class struggle discussed by Marx, Engels and Lenin.

Since the bourgeoisie has lost the material basis for its existence with the basic completion of the socialist transformation of the ownership of the means of production, counter-revolutionaries bent on opposing the Communist Party and socialism are few in number. In these circumstances class struggle has not come to an end mainly because, first, the political and ideological influence of the bourgeoisie persists in the country; secondly, the force of habit of the small producers still exists on a vast scale; and thirdly, the country is still encircled by capitalist countries, including a social-imperialist country. Under these conditions, we still find in our society counter-revolutionaries and enemy agents, all kinds of criminals who seriously disrupt public order and political degenerates, and such new exploiters as grafters, embezzlers and speculators. Unreformed landlords and bourgeois elements will also cling to their reactionary stand and carry on anti-socialist activities in the political and economic spheres. Thus we must not neglect to wage a struggle against the remnant

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[1] Mao Zedong, "On the Correct Handling of Contradictions Among the People", *Selected Works*, FLP, Beijing, 1977, Vol. V, p. 395.

[2] Mao Zedong, "Talks at a Conference of Secretaries of Provincial, Municipal and Autonomous Region Party Committees", *ibid.*, p. 377.

forces of the bourgeoisie. Nor should we slacken our efforts to conduct political and ideological education on socialism and communism among the labouring people, which will help them overcome the ideological influence of the bourgeoisie.

On the other hand, it should be realized that in normal conditions, these anti-socialist elements cannot form an open, full-fledged class. The present class struggle is a remnant form of the class struggle in history and is no longer the principal contradiction in China. We should not overrate the strength of the bourgeoisie or interpret Mao Zedong's every reference to class struggle as a matter of conflict with the bourgeoisie, much less treat each struggle as a contradiction between the people and their enemy. Exaggeration of class struggle does harm to stability and unity within the ranks of the people and is highly detrimental to socialist construction. It is a mistake to imagine that there is no longer any class struggle in a socialist society. It is an even bigger mistake to assume that class struggle keeps sharpening and intensifying in a socialist society — a view which conforms neither to the facts nor to the objective laws governing the development of class struggle. During the Cultural Revolution, Lin Biao and the Gang of Four distorted Mao Zedong Thought, called enemies revolutionaries and vice versa, mixed up the two different types of contradictions — those between the people and their enemies and those among the people themselves — and invented the myth about "new changes in class relations" in a deliberate attempt to confuse the class alignments. They spread the nonsense that the collective economy and collective peasants were engendering capitalism and the bourgeoisie daily and hourly, and slandered the majority of state enterprises as "strongholds of the bourgeoisie". They labelled the overwhelming majority of long-tested cadres as "capitalist roaders" and "the bourgeois within the Party", and whipped up counter-revolutionary sentiments for exercising a feudal-fascist "all-round dictatorship" over the nation. Although Lin Biao and the Gang of Four have been overthrown, their

pernicious influence on these questions has gone deep and will have to be eliminated through protracted efforts.

In a socialist society, chances for the rise of new exploiters are slim. When Lenin said that small production engendered capitalism and the bourgeoisie daily and hourly, he was referring to the times in the Soviet Union when the small-scale peasant economy had not been collectivized and the kulaks were still on the rampage. The conditions in China are quite different from what he spoke of in those days because our peasants have joined collectives and the spontaneous tendencies towards capitalism and the force of habit of small producers in our countryside are already restricted by the forces of socialism. We must not equate collective peasants with small private producers. Still less should we criticize the improving condition of the collective peasants as a capitalist tendency. Peasants in China are still quite poor, and the socialist relations of production can be consolidated and developed only when they produce more and become better off. Some people have a constant fear of the peasants being better off and becoming "bourgeois elements" in the process. They rush to criticize "capitalism" whenever farm production goes up and the peasants earn a little more. This has been an important reason for the sluggish growth of China's agriculture in recent years.

In my opinion, new exploiters will indeed appear in our country, but they will be few and we shouldn't be afraid of them. Since the monetary system exists, graft and embezzlement are possible. Since the commodity system exists, there is a basis for speculation and profiteering. When graft and embezzlement, speculation and profiteering expand to a certain extent, new exploiters are likely to emerge. This happened at times when mistakes were made in our economic work, production declined and the people led a hard life. It also happened in some regions under the rule of the Gang of Four. If no precautions are taken, it will probably happen again in the course of the reform of our system of economic

management through an extensive use of the functions of the market and the law of value. It would be incorrect to deny these objective facts and possibilities.

But the new exploiters will be few in number. More successes in socialist construction, a better life for the people and a stronger socialist system will minimize the possibility of their emergence. With the modernization of the national economy, we shall raise the income of the workers and peasants several times, but without their ever turning into "bourgeois elements".

We should not be afraid of the new exploiters. Such people, engendered after the completion of socialist transformation, are incomparably inferior in number and strength as compared with the old bourgeoisie. Since we have remoulded a whole class of the old bourgeoisie by peaceful means, why should we be mortally afraid of a few new exploiters? The emergence of some new exploiters is unavoidable at the present stage, but there is no need to be overly alarmed. We have the strength to remould them and may refer them to our organs of dictatorship if they put up a desperate fight. In the past, we clamped down on a handful of grafters, embezzlers and speculators by launching large-scale mass movements, but there was a tendency to confound right and wrong and condemn as capitalism many of the things that were non-capitalist or even socialist. Stability and unity among the people was undermined, the enthusiasm of the masses dampened, production disrupted, and the socialist relations of production weakened. We must not forget this lesson.

Class struggle in the period of socialism finds expression mainly in the ideological sphere. Mao Zedong pointed out in 1957: "While we have won basic victory in transforming the ownership of the means of production, we are even farther from complete victory on the political and ideological fronts."[1]

[1] Mao Zedong, "Speech at the Chinese Communist Party's National Conference on Propaganda Work", *Selected Works*, FLP, 1977, Vol. V, p. 434.

"It will take a fairly long period of time to decide the issue in the ideological struggle between socialism and capitalism in our country."[1] While we should not be blind to the struggle in the ideological field or treat it lightly, we should be fully aware of its special features. The present ideological struggle between socialism and capitalism, as mentioned above, finds the widest expression in a struggle within the ranks of the people, one in which they strive to free themselves from the ideological influence of the bourgeoisie. Mao Zedong said: "As far as unmistakable counter-revolutionaries and saboteurs of the socialist cause are concerned, the matter is easy, we simply deprive them of their freedom of speech. But incorrect ideas among the people are quite a different matter.... It is not only futile but very harmful to use crude methods in dealing with ideological questions among the people, with questions about man's mental world."[2] In this field we can only use the method of free discussion, reasoning, criticism and education.

It is highly important to analyse the characteristics of class struggle at the present stage as they are. Only thus can we wage a correct struggle on the ideological front. If we fail to see or forget these characteristics and adopt an erroneous form or method of struggle, we shall not be able to eliminate gradually the bourgeois influence among the people. Worse still, our struggle against bourgeois influence will be undermined and such influence may even expand.

2. CONTRADICTIONS AMONG THE PEOPLE

China is still in a lower stage of socialism. The existence of two systems of socialist public ownership and the wide gap

[1] Mao Zedong, "On the Correct Handling of Contradictions Among the People", *ibid.*, p. 409.

[2] *Ibid.*, pp. 410-11.

between mental and physical labour account for the presence of two classes, the workers and the peasants, and of the intelligentsia within the ranks of the people.

In his report on the Draft Constitution of the U.S.S.R. in 1936, Stalin correctly pointed out that in the Soviet Union there were the working class, the peasantry and the intelligentsia. He also noted that the working class, the peasantry and the intelligentsia in a socialist society had undergone a change in nature as compared with their counterparts in a capitalist society, differing completely from them. His analysis of the social groups formed by people in the course of work in a socialist society were of both theoretical and practical significance. However, he only underscored the mutual help and cooperation among the workers, peasants and intellectuals but failed to observe the contradictions among them. In his report, "On the Correct Handling of Contradictions Among the People", Mao Zedong pointed out that contradictions among the people existed on a large scale in a socialist society. He further said that in the conditions prevailing in China today, the contradictions among the people chiefly comprised the contradictions within the working class, the contradictions within the peasantry, the contradictions within the intelligentsia, the contradictions between the working class and the peasantry, and the contradictions between the workers and peasants on the one hand and the intellectuals on the other. This generalization conforms to the realities under socialism.

The working class in a socialist society differs completely from that in a capitalist society in economic and political status. Under capitalism the workers possess no means of production, owning nothing except their labour power. That is why they are called the proletariat. As for the workers in a socialist country, although we often call them "the proletariat" by habit, in fact they are joint owners of the means of production. Politically they are no longer oppressed by the bourgeoisie, but have become the leading class and, together with the other labouring people, are masters of the country.

That's why Stalin described them as a working class history had never known.

Similarly, the peasants in a socialist society enjoy a status entirely different from that of those in the old society. They have not only freed themselves from oppression and exploitation by the landlords, rich peasants and urban bourgeois, but ceased to be small producers. Working together in a socialist collective economy where the means of production are jointly owned, they have become collective peasants. As Stalin put it, they are a peasantry history has never known.

The intellectuals in a socialist society also differ from those in the old society. The overwhelming majority of them are no longer petty-bourgeois intellectuals serving the bourgeoisie, but working-class intellectuals serving the workers, peasants and other labouring people. The intellectuals in China today are a component part of the working class, a special stratum within that class. People's class status is determined by their place in production and not by their state of mind. It would be a big mistake to classify many of our intellectuals as bourgeois just because they still bear the influence of the bourgeois world outlook.

The working class, the peasantry and the intellectuals in a socialist society share the same basic interests. But there are disparities among them in the distribution of the consumption fund because of the existence of the two different systems of socialist public ownership and the division between mental and manual labour. This gives rise to non-antagonistic contradictions among them, which the state must weigh carefully and handle correctly. Contradictions among the people come to the foreground once the means of production are basically put under socialist ownership. Only by correctly handling these contradictions can we mobilize all positive social factors for the struggle to build up the country as a powerful socialist state.

There are certain contradictions between the working class and the peasantry in a socialist country. A fairly big gap

exists between our workers and peasants so far as their living standards are concerned. It has narrowed in some regions but widened in others and so has basically remained unchanged in the twenty years or so since the formation of agricultural co-operatives. The living standards of both workers and peasants are determined directly or indirectly through state planning. Thus the contradiction between them often finds expression in the contradiction between the state and the collective economy. To expand socialist industry at a fast rate, the state must expand the ranks of the working class and improve their life steadily. The means of subsistence needed by the working class are mainly produced by the peasants. But as our agricultural growth lags behind our industrial progress, there arises a serious shortage of the means of subsistence, chiefly grain and non-staple foods. Meeting the needs of the workers often prevents a full satisfaction of those of the peasants. To ensure the daily supply to the urban population, we introduced the system of purchasing major farm products on a requisition basis or by assigned quotas, committing the mistake of purchasing too much of them and leaving an inadequate amount of food grain for many peasants. This mistake dampened the enthusiasm of the peasants and affected agricultural growth, which in turn aggravated the shortage of grain and non-staple foods. It was a lesson we must never forget. Experience shows that the life of both the workers and peasants must be taken into consideration. To feed the workers well, we must enable the peasants to feed themselves well. It would be hard to meet the needs of the workers without meeting those of the peasants.

Speedy industrial construction requires a large sum of accumulation fund. Before heavy industry develops on a large scale, the main source of state accumulation can only be agriculture and light industry which depends on agriculture for raw material. But the state must not take too much from the peasants and squeeze them too hard. This is a problem we have not solved well. The agricultural tax in China has

always been relatively low, but the state has obtained several times more from the peasants by utilizing the "scissors" difference between industrial and farm prices. As a result, peasants in many areas can barely carry on simple reproduction in agriculture and cannot even do this in times of natural disasters. In addition, the "Leftist" influence on the implementation of the Party's rural economic policies has seriously hampered agricultural growth and resulted in unsatisfactory relations between the workers and the peasants. It seems unavoidable that the peasants have to contribute more to national construction before industry can provide the state with large sums of accumulation. But since industry has been providing an increasing amount of accumulation, it is both possible and necessary to readjust the prices of industrial and agricultural products so as to lessen the burden of the peasants. The Party's rural economic policies must also be implemented in earnest to achieve a faster agricultural growth.

While narrowing the gap between workers and peasants, the socialist state should take proper measures to reduce gradually the discrepancies among the peasants in different areas, communes, brigades and teams. While we have paid some attention to narrowing the gap between workers and peasants, we have done little to minimize the differences between communes, brigades or teams. Instead, many of our policies and measures tended to widen these differences. For example, we levied a progressive agricultural tax in the early 1950s with small differences between the tax scales. For the last twenty years and more, we have kept to a policy of introducing no tax increase on increased output in order to boost agricultural production. Farm output has risen several times in some fast-developing areas. In terms of their output, the peasants there are being taxed at a much lower rate than those in slow-developing areas where output has remained particularly low. Again, to encourage peasants in high-yielding areas to sell grain to the state over and above the prescribed quotas, we pay higher prices for these extra sales. This will obviously

widen the differences between the high and low yielding areas. In recent years we have promoted commune industries and tried to stimulate agricultural growth through industrial development. But the areas which have seen a faster development of commune industries are those close to industrial cities, where the farm output and the peasant earnings are generally higher. Because of the above factors, the differences between areas, communes, brigades and teams are widening. This is a question which demands our full attention. The present state of affairs does not make for a speedy rise in the output in low-yielding areas and a nationwide agricultural growth. It is true that the high-yielding areas have been selling more commodity grain to the state. But it is also true that the low-yielding areas are still consuming grain which the state has to send back to the needy areas in the countryside, and the grain shortage remains as serious as ever. In particular, many of the low-yielding areas are in the mountains. Some of them used to be our revolutionary base areas; others are inhabited by minority peoples. It is our duty to help them change their backward state as soon as possible.

Although intellectuals in a socialist society have become part of the working class, a contradiction exists between them and the workers and peasants because the division between mental and manual labour will remain in such a society for a long time. In the economic sector under ownership by the whole people, manual and mental workers enjoy an equal right to the ownership of the means of production. They are comrades doing different kinds of work, not two different classes. But there is still an essential distinction between mental and manual labour in the stage of socialism, a distinction which is more pronounced in an economically and culturally backward country than in a developed one because the scientific and cultural level of the workers and peasants are much lower in the former. Thus intellectuals are a special stratum. Scientific and cultural pursuits and the responsibilities of leadership and management are undertaken by them

as their fairly stable professions. Under the system of "to each according to his work", higher intellectuals should receive higher pay and enjoy a better living standard than the workers and peasants, the manual labourers. Different working conditions and living standards often lead to certain contradictions between the intellectuals and the workers and peasants. We should educate the two parties in the need for them to respect each other and develop comradely cooperation and assistance.

We should correctly implement the principle of "to each according to his work" in handling the well-being of these two types of labourers. Mental labour is a more complex type of labour. Our modernization programme calls for building a powerful contingent of specialists with a high standard of scientific and technological expertise and managerial skill, who will make greater contributions to the nation by performing highly intensive and creative labour. Thus it is reasonable and necessary to give them a higher pay and provide them with better living conditions than the average ones. We have not done enough to fulfil the needs of scientists and technicians in their life and work, preventing them from contributing their best. This is harmful to the four modernizations.

Our long-range policy, however, is to gradually minimize the distinction between mental and manual labour. But this cannot be done by preventing the intellectuals from raising their scientific and cultural level. On the one hand, we should raise the scientific and cultural level of the worker and peasant masses as fast as possible and train millions of workers, peasants and other labourers who are armed with modern technology and skills. On the other, we should also raise the level of our scientists and technicians as fast as possible and train vast numbers of cadres and intellectuals who are well versed in modern science and technology and in modern economic management, encouraging them to scale the heights of world science. As the revolutionary cause needs outstanding revolutionaries, so the modernization programme needs scien-

tists, engineers and all kinds of specialists who are truly up to the mark.

From a long-term point of view, the distinction between mental and manual labour will gradually diminish. But in a given period and in given circumstances, such a distinction may even grow for a time. In China's agriculture, for instance, the division between mental and manual labour is not so pronounced because the two are basically combined in the process of hand operation. But the mechanization and modernization of agriculture will require a great number of scientists and technicians in this field. This means a growing distinction between mental and manual labour within a given period. On the basis of increased production and particularly a sharp rise in labour productivity, a gradual expansion of the contingent of mental labourers and a speedy improvement in their quality would be fully necessary and highly favourable to the further growth of social productive forces, the acceleration of modernization and the consolidation and development of the economic foundations of socialism. Recognition and preservation of the distinction between mental and manual labour are precisely a measure to create the conditions for the final elimination of such a distinction. This conforms to the dialectics of history. Before the conditions are ripe, a premature negation of the role of the division between mental and manual labour and an overstress on the need to minimize this distinction would only lead to a stagnation in the development of science and technology, hamper the rises in labour productivity, and cause losses to the state and the people.

The division between mental and manual labour arose at a time when social productive forces had developed to a certain but not a full extent and when man must still devote most of his time to manual labour. With the spectacular developments in modern science and technology and their wide application in production, a tremendous amount of manual labour and even part of mental labour will be replaced by machinery. The growing social productive forces will provide

an ever greater amount of surplus products, and all people will have more time to study science and culture and, in the course of time, everyone will be able to take up complex mental labour while performing manual labour. Then science and technology, culture, management and other work will change from being the special pursuits of a minority to the common activities of all members of society. In this way, "the enslaving subordination of the individual to the division of labour", in the words of Marx, will gradually fade away as will the essential distinction between mental and manual labour. Only then can we, on the basis of a full satisfaction of the needs of all members of society in an affluent life, attain the goal defined by Engels, i.e., "leaving each individual sufficient leisure so that what is really worth preserving in historically inherited culture — science, art, forms of intercourse — may not only be preserved but converted from a monopoly of the ruling class into the common property of the whole of society, and may be further developed."[1]

3. PEOPLE'S DEMOCRACY AND THE CORRECT HANDLING OF THE CONTRADICTION BETWEEN THE LEADERSHIP AND THE MASSES

The socialist state has two functions, a political and an economic one. Its political function is, externally, to prevent foreign aggression and defend national independence and, internally, to safeguard people's democracy and exercise dictatorship over the class enemy. While discussing the functions of the socialist state, we used to emphasize dictatorship over the class enemy but say little about the question of defending people's democracy. That was inadequate. Marx and Lenin stressed the need for the proletariat to exercise resolute

[1] Frederick Engels, "The Housing Question", in Karl Marx and Frederick Engels, *Selected Works*, in three volumes, Progress Publishers, Moscow, 1976, Vol. II, p. 312.

dictatorship over the class enemy in the period of revolutionary transition from capitalism to communism because that period involves an acute struggle to decide who will win out — the proletariat or the bourgeoisie, socialism or capitalism. Even in that period it is necessary to practise extensive people's democracy for reliance on the people's strength to exercise effective dictatorship over the class enemy. After the means of production are basically put under socialist ownership, although the remnant forces of the bourgeoisie and other exploiting classes still exist, social contradictions find expression on a vast scale in contradictions among the people and not in those between the people and their enemy. Contradictions among the people can only be resolved by democratic methods. Thus the defence of people's democracy and the correct handling of contradictions among the people by various policies and decrees should be the foremost political task of the socialist state. This doesn't mean that we may forget about our dictatorship over the class enemy. It only means that this dictatorship has become secondary to the defence of people's democracy.

China's socialist relations of production have been built on the debris of a semi-feudal system and not on the basis of a developed capitalist system. Historically China lacks a tradition of bourgeois democracy. Bourgeois democracy is backward as compared with proletarian democracy, but it is progressive when contrasted with feudal autocracy. What we had in old China was not bourgeois democracy but feudal autocracy which turned into feudal fascism under the Kuomintang reactionaries. With the birth of New China, the people became masters of the country. This created a most favourable condition for the promotion of people's democracy. Socialist democracy is the broadest type of democracy. We should have done our best to promote people's democracy after putting the means of production under socialist ownership. For a time, however, class struggle was conducted on an excessive scale and certain contradictions among the people were

treated as those between the people and their enemy. This naturally did harm to people's democracy. Theoretically, people's democracy should have been fully developed during the Cultural Revolution. Unfortunately, Lin Biao and the Gang of Four usurped the leadership in the Cultural Revolution and carried their feudal-fascist reign of terror to the extreme. The brutal suppression of the "April 5th Movement"[1] in 1976 showed the acute struggle between feudal fascism and the demand for people's democracy.

The crushing of the Gang of Four paved the way for a full extension of people's democracy. But the ideological vestiges of feudal autocracy left over from history cannot be eliminated in a short time. Neither can the cultural level of the people be raised overnight. These are some of the reasons why bureaucracy is easily engendered in government organs, enterprises and other institutions, giving rise to contradictions between the leaders and the masses. Speaking of the correct handling of contradictions among the people, Mao Zedong pointed out: "Our People's Government is one that genuinely represents the people's interests, it is a government that serves the people. Nevertheless, there are still certain contradictions between this government and the people. These include the contradictions between the interests of the state and the interests of the collective on the one hand and the interests of the individual on the other, between democracy and central-

[1] After Premier Zhou Enlai died in January 1976, the anti-Party clique of Jiang Qing, Zhang Chunqiao, Yao Wenyuan and Wang Hongwen hidden in the Chinese Communist Party, also known as the Gang of Four, quickened their steps to usurp Party leadership and state power and mounted unbridled attacks on the late Premier. The gang's counter-revolutionary deeds aroused wrath and opposition within the Chinese Communist Party and among the broad masses. On April 5, in defiance of intimidation by the gang, people converged on Tiananmen Square in Beijing and memorial sites in other big cities, where they laid wreaths to mourn their beloved Premier and recited poems to pay respect to him and denounce the Gang of Four. This revolutionary mass movement met with sanguinary suppression by the gang and came to be known as the "April 5th Movement".

ism, between the leadership and the led, and the contradictions arising from the bureaucratic style of work of some of the state personnel in their relations with the masses."[1] He paid special attention to the contradiction between the leading cadres and the masses. If the leading cadres treated the labouring masses in a bureaucratic manner, he said, the masses would think that the factories belonged to the cadres and not to themselves. Don't imagine that a change in the system of ownership would naturally result in comradely co-operation between the leadership and the masses. On several occasions he criticized those leading cadres who, enjoying their high position and handsome salaries, lived in ease and comfort and acted like mighty officials sitting on the backs of the people. He urged cadres to go among the masses, go deep into the realities of life and share weal and woe with the masses. Over the years, a small number of degenerates have emerged among our cadres. Quite a few of them were key members of the factions under Lin Biao and the Gang of Four. Such degenerates are found in the higher and lower organs of leadership. Some of the cadres in rural communes, brigades and teams act as if they enjoyed feudal privileges, bullying the peasants at will or even beating and cursing them. In Party and government organs, enterprises and other institutions, there are frequent cases of one or a few persons making arbitrary decisions, turning a deaf ear to the criticism from the masses, harbouring hatred against critics and retaliating against them when the time comes. There is an urgent need to answer the question of how the relations between the leadership and the masses can be improved, socialist democracy developed, the socialist legal system perfected and proletarian democratic centralism correctly applied.

An important question in improving the relations between the leadership and the masses is how the leading cadres may

[1] Mao Zedong, "On the Correct Handling of Contradictions Among the People", *Selected Works*, FLP, Beijing, 1977, Vol. V, pp. 385-86.

be prevented from seeking privileges. Summing up the experience of the Paris Commune, Marx and Engels pointed out that after its seizure of power, the proletariat must adopt resolute measures to prevent "place-hunting and careerism" among its state personnel and "their transformation from servants of society into masters of society". Lenin, too, praised the measures taken by the Paris Commune against the transformation of servants of society into masters of society, defining them as measures "*against* [their] transformation into bureaucrats" and into "privileged persons divorced from the masses and standing *above* the masses".[1] This question deserves our constant attention. In socialist revolution and construction, we should educate our leading cadres at all levels in the need to persevere in the glorious tradition of the revolution and consciously refrain from seeking special privileges in violation of state rules and regulations. Better living and working conditions for the leading cadres are necessary and are understandable to the masses; we certainly do not stand for equalitarianism. However, the unreasonably high standards must be changed and all privileges abolished. Only thus can the unity of the leadership and the masses be strengthened and the socialist enthusiasm of the masses brought into full play.

The fundamental way to handle correctly the contradictions between the leading cadres and the masses is to promote socialist democracy and resolutely protect the people's democratic rights as stipulated in the Constitution and other statutes. The organs of political power at all levels must truly be democratically elected, and members of people's communes must not be deprived of their democratic right to elect cadres at the commune, brigade and team levels. These are highly important measures to eliminate the vestiges of feudal autocracy. Leading cadres of government

[1] V. I. Lenin, *The State and Revolution*, FLP, Beijing, 1976, p. 133 and p. 140.

agencies and of some state enterprises cannot all be elected by the rank and file in these establishments because they should represent the interests of the whole people and not merely those of the masses there and should largely be appointed by higher organs. But these leading cadres must also be supervised by the masses in their organizations, who have the right to demand the removal of the incompetent ones. Polls by secret ballot may be conducted at regular intervals to canvass opinion on the performance of the leading cadres so that the higher organs may have something upon which to base their reshuffling of leading bodies. The leading cadres of some enterprises and institutions, such as schools and research institutes, and of the workshops, teams and groups in factories may be elected by the masses.

The trade unions or congresses of workers and staff members in state enterprises should enjoy a wide range of democratic rights. The production and business plans of an enterprise and the concrete measures for their fulfilment should be submitted to them for free discussion. Leading cadres of an enterprise should report on the progress of its work to the trade union or workers' congress at regular intervals. Plans on technical innovations, the trial-manufacture of new products, and the distribution and use of the business fund, should also be submitted to the masses for democratic discussion. Decisions on collective welfare and the promotion, awarding or punishment of workers and staff members should be made jointly by the leading body and the trade union in an enterprise. Trade union and workers' representatives who are not divorced from production should be invited to sit on the leading body of an enterprise. To make the masses the real masters and enhance their sense of responsibility as such, enterprises and institutions must seriously try out a system of democratic management by the masses. This is the only effective way to prevent the degeneration of some leading cadres and the rise of a privileged stratum.

The question of safeguarding the democratic rights of the labouring masses in the economic sector under collective ownership is an even more pressing one because there are more vestiges of feudal autocracy in the countryside. Although it is stipulated in state regulations that cadres in the communes, brigades and teams are to be elected democratically by commune members, this has not been put into practice in many areas. There are still serious cases of cadres enjoying privileges and bullying the masses. At the same time, it is fairly common for higher organs to encroach upon the right of autonomy of communes, brigades and teams and issue arbitrary orders to them. Many people are already used to such a state of affairs and no longer regard it as a serious problem. Fighting "the spontaneous forces of capitalism" in the countryside year in and year out, we were nevertheless blind to the force of habit of feudal autocracy. Don't think that vestiges of feudalism have been thoroughly eliminated with the completion of land reform. The force of habit of feudalism can be eradicated only through an earnest development of people's democracy. Without people's democracy, the building of socialism in the countryside is out of the question.

Ours is a country lacking a democratic tradition. How to develop people's democracy and promote socialist democracy as distinguished from bourgeois democracy is a question that remains to be solved in theory and practice. It is theoretically unquestionable that the people's congresses and people's governments at all levels, which represent the interests of the whole people, should be elected by the people. But the problem of how they should be elected has not been fully solved in practice. The various government agencies and state enterprises and institutions do not represent the whole people directly but serve them under the direction of the people's governments at various levels. The leading cadres of government agencies should be answerable to the people's governments and should also be supervised by the workers

and staff of these agencies. The leading cadres of state enterprises should be answerable to the higher organs and should also be supervised by the workers and staff of these enterprises. How to combine mass supervision with acceptance of the leadership of the higher organs is a theoretical question that needs further study. If the leading cadres of an enterprise are all elected and supervised by the masses instead of being appointed or discharged by a higher organ, they will very likely reject the leadership of the higher organ and place the interests of their enterprise above those of the whole society. In that case, there will be few differences between such an enterprise and a unit under collective ownership. Conversely, if the leading cadres of an enterprise are only directed by a higher organ and not supervised by the masses, how can the labouring people change from being mere employees of an enterprise to its masters?

Since communes, brigades and teams are economic units under collective ownership, their cadres should be answerable to and should be elected by the commune members. Nevertheless, they should also accept the leadership of the local governments. While exercising their democratic rights, the collective peasants must also abide by the policies and decrees of the state and fulfil their duties to the latter. This is where socialist democracy differs from capitalist democracy. Questions like these call for serious study.

Conclusion

OBJECTIVE LAWS OF SOCIALIST ECONOMIC DEVELOPMENT

1. MARXIST THEORY ON THE BUILDING OF SOCIALISM

In his "Preface to the First German Edition" of the first volume of *Capital*, Marx wrote: "It is the ultimate aim of this work to lay bare the economic law of motion of modern society."[1] Marx devoted his whole life to the study of capitalist economy, which had by then lasted two or three hundred years, and discovered the objective laws governing its development. But he lived in times of free capitalist competition, and since monopoly capitalism was only in its budding stage at the time of his death, he could not have acquired a systematic understanding of the laws of its development. In *Imperialism, the Highest Stage of Capitalism,* Lenin analysed the new situation in the period of monopoly capitalism and developed Marxism by elucidating the laws of capitalist economic growth in this new era. More than sixty years have gone by since Lenin wrote his book. The capitalist world has made fresh advances and many new situations and problems have appeared, which we should study and solve in order to make necessary additions to Marxist theory. As capitalist society has not yet run its course, we cannot say that we have arrived at a complete understanding of the laws of capitalist economic growth.

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[1] Karl Marx, *Capital*, Foreign Languages Publishing House, Moscow, 1958, Vol. I, p. 10.

Socialism is a new social system with a brief history. It has only been thirty years since the socialist revolution began in China and we have not accumulated sufficient experience in our social practice. Since we had an extremely backward economy to start with and our present socialist relations of production are far from mature, we have many difficulties in studying the laws of socialist economic development. On the whole, the building of socialism remains an unknown "realm of necessity" for us, to use the words of Engels. Whatever we know about this "realm of necessity" is far from complete or profound. We have a long way to go before we get to know the laws governing socialist economic development.

But knowledge of the laws of socialist economic development will come as neither a gift from heaven nor a revelation of a "genius" or "prophet". We can discover the intrinsic laws of such a development only through systematic and careful research on socio-economic conditions and the practical experience of millions of people in the building of socialism, and an elevation of perceptual knowledge to the level of rational knowledge, i.e., to theory. We cannot complete our understanding of objective laws by a single move. We must test to see if our knowledge, as manifest in our line, principles, policies and plans, brings anticipated results, is accurate and corresponds to objective reality. Practice, knowledge, practice again, and knowledge again — this is the inevitable process by which we come to know objective laws. As history advances, our knowledge of objective things may fall behind their evolution and will need to be amended in the light of new circumstances. The history of socialist development is far from complete. We of course cannot refrain from looking into the laws of socialist development until after its completion. We must review our experience in the course of practice so that our knowledge grows with the progress of history.

In the *Manifesto of the Communist Party* published in 1848, Marx and Engels analysed the innate contradictions of capitalism and predicted its inevitable doom and its replacement by a communist society free from all class exploitation. Later, in the light of historical experience, they gradually realized that communism would also develop from a lower to a higher stage. After the failure of the Paris Commune in 1871, Marx reviewed the new experience it had provided and, in his 1875 manuscript, *Critique of the Gotha Programme*, advanced for the first time the thesis that "between capitalist and communist society lies the period of the revolutionary transformation of the one into the other" as well as the theory of the two stages of development of communist society. According to this theory, at the lower stage of communism, i.e., the stage of socialism, public ownership of the means of production by the whole of society would be established and classes abolished, but the traditions and birthmarks of the old society would have to be retained and the principle of "to each according to his work" followed in the distribution of the means of subsistence. Marx assumed that such a distribution would be conducted by means of labour certificates issued in direct proportion to the amount of labour provided by the producers and not through the market or the commodity-money relationship. Only at the higher stage of communism could payment for labour be abolished and the principle of "from each according to his ability, to each according to his needs" carried out. Marx lived in times when nobody had any practical experience with socialism. Thus he could not have elaborated on the laws of socialist economic development. Nevertheless, he applied "the theory of development — in its most consistent, complete, considered and pithy form — to modern capitalism. Naturally, Marx was faced with the problem of applying the theory both to the *forthcoming* collapse of capitalism and to

the *future* development of *future* communism."[1] On the basis of his overall understanding of the law of social development, Marx criticized Lassalle's theory of undiminished, fair distribution of the proceeds of labour and made the above scientific prediction about future socialism and communism. A systematic exposition of these ideas of Marx was provided by Lenin in *The State and Revolution.*

The victory of the October Socialist Revolution translated socialism from an ideal into a reality. Russia was a country with a medium level of capitalist development where industrialization had not been completed nationally and a small-scale peasant economy was predominant. Building socialism in such a country was much more difficult and complicated than it would be after the victory of the revolution in a developed capitalist country where industrialization had been completed and the small-scale peasant economy was insignificant. This required a series of special methods for carrying out a transition. The first question was how to deal with the small-scale peasant economy. Marx and Engels said that it should be guided onto the course of co-operatives. But how should this be done? There was no precedent. In the period of civil war and armed foreign intervention which followed the October Revolution, "War Communism" was enforced out of necessity and it was assumed that the commodity-money relationship could be abolished fairly soon — an assumption which resulted in a detour in Soviet economic development. The sharp drop in agricultural production, caused mainly by war, also had to do with some aspects of the economic policy which violated the objective laws of economic development. Being good at drawing lessons and rectifying mistakes, Lenin shifted to the New Economic Policy right after victory in the war, which meant allowing the peasants freedom to sell their surplus grain on the market

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[1] V. I. Lenin, *The State and Revolution,* Foreign Languages Press, Beijing, 1976, pp. 102-03.

after payment of the tax in kind and restoring the commodity-money relationship. This policy rehabilitated agricultural production speedily. (In China no "War Communism" was imposed on the peasants in the years of revolutionary war, during which a rural policy close to the NEP was carried out.) Lenin deemed it necessary to preserve the commodity-money relationship for a fairly long time after the proletarian seizure of power so as to maintain the economic ties between the socialist state economy and the small producers. This was a fresh contribution to Marxism.

Socialism cannot be built upon a small-scale peasant economy. In line with Marxist principles, Lenin put forward a "co-operative plan" for the socialist transformation of the small-scale peasant economy and the rehabilitation and expansion of big industry. In his seven years of practical experience with socialism, Lenin gave a series of pithy instructions on all aspects of socialist construction, leaving a valuable legacy to us. Unfortunately, he died too early and, by the time of his death, the transformation of the small-scale peasant economy through the establishment of co-operatives had only been tried out in a few places and socialist construction was just beginning. He was naturally unable to offer a systematic elucidation of the laws of socialist economic development.

To fulfil Lenin's behests, Stalin led the Soviet people in accomplishing agricultural collectivization and national industrialization and establishing a socialist economic system. In *Economic Problems of Socialism in the U.S.S.R.*, which he wrote about a year before his death, he emphasized the question of the laws of economic development under socialism, chiefly the law that the relations of production must conform to the character of the productive forces, the basic economic law of socialism, the law of balanced, proportionate development of the national economy and the law of value. Observing the two types of socialist public ownership existing side by side in the U.S.S.R., he elucidated many important

questions concerning the use of objective economic laws in the interests of socialism. This was Stalin's new contribution to Marxism-Leninism. In retrospect, some of his arguments seem weak. But this was inevitable and, compared with previous attainments, they marked a big advance in man's knowledge of socialist economic development.

In his *Economic Problems of Socialism in the U.S.S.R.*, Stalin stressed the objective nature of economic laws under socialism and pointed out that men, including the Soviet state and its leaders, could not abolish, create or change these laws, but might discover and grasp them and utilize them in the interests of socialist construction. Of course this did not mean they had acquired a full understanding of these laws or were acting in full conformity with them. Acting in accordance with objective laws, the Soviet state achieved tremendous successes in socialist construction. But it was also punished many times for going against these laws. By raising in his last years the question of economic laws under socialism and their objective nature, Stalin drew an important lesson from more than thirty years' experience in national construction in the U.S.S.R., teaching people to study and apply objective laws conscientiously, correct mistakes in theory and practical work, avoid blindness wherever possible, sharpen their foresight and push forward the cause of socialism.

China is a big country with a population of more than 970 million. We began building socialism on the ruins of semi-colonialism and semi-feudalism and not on those of developed capitalism; we are striving to accomplish the country's four modernizations despite a huge population and a poor foundation. This is a colossal task never attempted by our forefathers. Thus we must answer well the question of the method to be adopted and the course to be followed in building up the country. We will of course take Marxism-Leninism as the guide to our thinking. But this doesn't mean to copy mechanically the formula on the first stage of com-

munism advanced by Marx in the *Critique of the Gotha Programme* or by Lenin in *The State and Revolution.* We should learn from the experience in the building of socialism in the Soviet Union under Lenin and Stalin and from all that is good in other countries. When we embarked on socialist construction in the early 1950s, we benefited much from our study of Stalin's *Economic Problems of Socialism in the U.S.S.R.* and the experience in the Soviet Union. But our understanding must not stop there. Copying the experience of others doesn't solve our problem. We must base ourselves on practice, try to find China's own way of building socialism and work out a whole set of methods in order to build a socialist society which suits the present level of productive forces and other conditions in China. In his "Talk at an Enlarged Working Conference Convened by the Central Committee of the Communist Party of China" in 1962, Mao Zedong pointed out, "Getting to know the laws governing the building of socialism necessarily involves a process. We must take practice as the starting-point and move from having no experience to having some experience, from having little experience to having more experience. . . ." He also said, "As for our Party as a whole, our knowledge of socialist construction is very inadequate. In the forthcoming period we should accumulate experience and study hard, and in the course of practice gradually deepen our understanding and become clearer on the laws of socialist construction."[1] His teachings still have a practical significance today.

Historical experience shows that objective laws are at once omnipresent and non-present. When you do not contravene them, they seem to be non-existent. When you do, they will have you punished. A summary of successful experiences can of course clarify for us the objective laws of economic

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[1] Mao Zedong, *Talk at an Enlarged Working Conference Convened by the Central Committee of the Communist Party of China*, Foreign Languages Press, Beijing, 1978, p. 18 and p. 22.

development, but a review of lessons of failure can be even more instructive and convince us that objective laws are not to be violated. Men often correct their mistakes by drawing lessons from failures, enabling themselves to know the objective laws governing the development of things and turn failure into success. Thus there is only one way for us to know the objective laws governing socialist economic development, that is, to act upon the fundamental tenets of Marxism-Leninism, analyse our successful and unsuccessful experience in socialist revolution and construction, deduce from it the laws governing the development of China's socialist economy, and take them as a guide to action. Generally speaking, if our line, principles, policies and plans turn out to be successful, they are correct and prove the relative accuracy of our knowledge of the laws of socialist economic development. If they end in failure, they show that our knowledge is inaccurate or our method is wrong, and that we must draw lessons from them and rectify our mistakes. Even if we have acquired a relatively accurate knowledge of the laws of socialist economic development, we will still have to replenish and advance it continually by studying new circumstances and experience.

Some comrades were not sufficiently aware of the importance of studying and observing objective laws and were confused about the relationship between the Party line and objective laws. According to them, the line is the key link and the accuracy of our knowledge of objective laws should be judged by its conformity with the Party line. This was an inversion of cause and effect. It is the laws that determine the line, principles and policies, not vice versa. The Party's line, principles and policies should be formulated in light of the requirements of objective laws and their correctness should be judged by their conformity with these laws. Some other comrades fear that observing objective economic laws would mean an abandonment of the principle of putting politics in command. This is a misconception. Politics is the

concentrated expression of economics; violation of objective laws of economic development hinders the growth of productive forces and may even undermine these forces, doing serious harm to the fundamental interests of the labouring people as a whole. Is such politics to be put in command?

2. ECONOMIC LAWS OF SOCIALISM

There are different formulations about the economic laws of socialism. In his *Economic Problems of Socialism in the U.S.S.R.*, Stalin referred to the law that the relations of production must conform with the character of the productive forces, the basic economic law of socialism, the law of balanced, proportionate development of the national economy, the law of value, and so on. These are all important economic laws in a socialist society. They arise from different circumstances and may be classified into the following types:

1. *A common law that runs through all stages of the development of human society, i.e., the law that the relations of production must conform with the level of the growth of productive forces.* This law has operated in all stages of human society but is of particular importance to socialist society. All socio-economic formations in human history came into being spontaneously in correspondence with this economic law. The case is different with the socialist relations of production, which emerge and develop gradually through the application of the principles and policies set by the proletariat which has consciously grasped the same objective law. Before liberation, the Chinese Communist Party formulated a political programme for a transition to a socialist revolution via a democratic revolution. After the birth of New China, the Party announced in 1953 the general line for the period of transition from capitalism to socialism, which provided for the socialist transformation

of the ownership of the means of production. This led to the belief that the rise and gradual reform of the socialist relations of production may be determined by the subjective will of the Party without following the objective laws of socialist economic development. This view led to serious mistakes. Even today, many of our comrades underestimate the difficulties involved in the building of socialism in our country where the level of productive forces is very low, particularly in agriculture. They are apt to make a rash advance whenever the economic situation is good. Taking advantage of people's inadequate knowledge of this law, Lin Biao and the Gang of Four dished out many ultra-Left slogans to make trouble, pushing our national economy to the brink of collapse. We must take warning from this.

When Marx spoke of the contradiction between the relations of production and the productive forces, he often referred to cases where the relations of production lagged behind the requirements of the growing productive forces. That was because he was analysing mainly the capitalist system which had become an obstacle to the development of productive forces. But he also pointed out in clear-cut terms:

> A social order never perishes before all the productive forces for which it is broadly sufficient have been developed, and new superior relations of production never replace older ones before the material conditions for their existence have matured within the womb of the old society. Mankind thus inevitably sets itself only such tasks as it can solve, since closer examination will always show that the task itself arises only when the material conditions for its solution are already present or at least in the process of formation.[1]

Over the past thirty years, people appear to have unanimously acknowledged this objective law — the relations of pro-

[1] Karl Marx, *Preface and Introduction to "A Contribution to the Critique of Political Economy"*, FLP, Beijing, 1976, p. 4.

duction must conform with the level of the growth of productive forces. In practice, however, they have differed in their understanding of the dialectical relationship between the socialist relations of production and the developing productive forces. For a time, we overemphasized how backward relations of production would fetter productive forces and hastened to change the relations of production in the absence of a significant growth in productive forces. We failed to see that a change in the relations of production that was too radical for the actual growth of productive forces would likewise hamper such a growth. The rise of new relations of production opened broad vistas for the growth of productive forces. But we were not fully aware of the need to stabilize these new relations of prodution and concentrate on raising the level of productive forces. These misconceptions accounted for the lasting dominance of the idea that a "Left" mistake was more justifiable than a Right one and it was better to be too much to the left than too much to the right. As a result we took rash steps to change the relations of production, a mistake which was repeated over and again in some regions, causing heavy losses to industrial and agricultural production. In view of all this, when we study questions of China's socialist economy, we must grasp this most important economic law of human history by applying the vital principle that "practice is the sole criterion of truth". Instead of reciting the law as a dogma, we must be clear on its specific content and dialectics by examining the practical experience in China's socialist revolution and construction.

2. *The economic laws common to socialism and communism.* These may be regarded as the economic laws of communism from the standpoint of Marx's thesis that socialism is a lower stage of communism. As a lower stage of communism, socialism is naturally governed by the general economic laws of communism. In his *Economic Problems of Socialism in the U.S.S.R.*, Stalin set forth two economic laws of socialism, namely, the basic economic law of socialism and

the law of balanced, proportionate development of the national economy. These two economic laws are actually economic laws of communism because they not only operate at the lower stage of communism, i.e., the stage of socialism, but will play a fuller role at the higher stage of communism. At the stage of socialism, the operation of these two laws is somewhat restricted. The basic economic law of socialism is, in Stalin's words, the securing of the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society through the continuous expansion and perfection of socialist production on the basis of higher techniques. Clearly, we cannot as yet develop the socialist economy "on the basis of higher techniques" everywhere, nor secure "the maximum satisfaction" of the needs of the whole nation. As for the law of balanced, proportionate development of the national economy, it cannot operate fully in the economic sector under collective ownership, and not even in the economic sector under ownership by the whole people, unless it is aided by the law of value.

The basic economic law of socialism came into being as an antithesis to the basic economic law of capitalism, i.e., the law of surplus value. The aim of capitalist production is to secure surplus value for the bourgeoisie whereas the aim of socialist production is to satisfy the needs in the material and cultural life of the whole people. Furthermore, the method used to achieve the socialist aim is fundamentally different from that used to achieve the capitalist aim. Stalin's formulation contained a succinct statement of the aim of production and the method to achieve it under socialism as distinguished from those under capitalism, providing important guidance for the exercise of leadership in socialist economic construction. A socialist country develops production to better the life of the people, but this is easier said than done. To satisfy the needs of the people sooner and better, we must conduct extended reproduction at high speed. This makes it necessary to set aside a bigger accumulation fund from

the national income. But in a given period of time, higher accumulation means lower consumption or a restriction on the improvement of the people's present conditions, which implies a contradiction with the satisfaction of the people's needs. A socialist state must handle this contradiction correctly, taking into consideration and making overall arrangements for both the development of production and the satisfaction of consumer needs. It is all the more important to handle this contradiction well in a country like China, which is both populous and poor. We have not handled this contradiction well in the past twenty years. Quite a few of our comrades did not understand that the ultimate aim of production and construction is to improve the life of the people. Preoccupied with achieving speedy results, they paid exclusive attention to the development of production but neglected to raise, and sometimes even lowered, the people's living standard in their attempt to accelerate production and construction. This line of action ran counter to objective laws, with the result that the people's life remained unimproved for a long time, the superiority of the socialist system could not be brought into play, the enthusiasm of the people was dampened, the rational proportions of the national economy were upset and, consequently, production and construction were slowed down. This erroneous tendency of "production for production's sake" must be prevented. State plans must give prominence to proper arrangements for the people's life and balance national construction with the people's welfare. Every enterprise must base its production on the needs of society and pay attention to the quality, variety and specifications of products instead of working blindly for meaningless figures of output or output value, i.e., expending much manpower and material on the production of goods not needed by the state or the people. It is all the more important for economic units under collective ownership to handle correctly the relationship between expanding production and improving the life of their members.

The socialist economy must develop in a planned and proportionate way. A proportionate development of the various departments of the national economy is necessary for any socialized mass production, whether socialist or capitalist. The difference lies in that the proportions of a capitalist economy take shape mainly through spontaneous regulation by the law of value and the law of surplus value (including the law of the equalization of profit), while those in a socialist economy take shape mainly through state planning. Thus socialist economic development is not only a proportionate, but also a *planned* development. This law, as defined by Stalin, also appeared as an antithesis to the capitalist law of anarchy in production. It is an objective law that shows the special features and requirements of reproduction in a socialist society.

Without studying this law seriously, many of our comrades blindly pushed up the targets, thinking that it was unconditionally better to have a higher production rate and more construction. As a result, serious disproportions appeared between accumulation and consumption and between agriculture, light industry and heavy industry, and production and construction showed little progress. Our experience in the past three decades has taught us that to develop production at a high speed, we must always make a conscious effort to maintain the proper proportions, particularly those between accumulation and consumption and between agriculture, light industry and heavy industry. The rate of accumulation should not be too high. In drawing up the national economic plan, we must put agriculture first and keep to the order of priority of agriculture, light industry and heavy industry. Only thus can we maintain the balance between the various departments of the national economy and create favourable conditions for a sustained high-speed development.

3. *The law of value which has existed under several socio-economic formations and which continues to play an important role in a socialist economy.* As discussed earlier, the

law of value is bound to operate in a socialist society because of the continuance of the production and exchange of commodities. The socialist state must conduct commodity exchange, i.e., the exchange of industrial goods for farm produce, between industry under ownership by the whole people and agriculture under collective ownership. It must also use the exchange of commodities through money as a means of distributing consumer goods among labourers on the principle of compensating an equal amount of labour with an equal amount of products. Obviously, the law of value continues to play an important role in these spheres. As for the exchange of products between state enterprises under ownership by the whole people, we have always calculated their profits and losses on a unified basis or, as the metaphor goes, by letting everybody "eat the rice cooked in the same big pot". Experience over the past three decades shows that this practice seriously weakens the initiative and self-reliance of the enterprises in improving business operations. It should be admitted that exchange between state enterprises has the nature of commodity exchange. Each enterprise should conduct independent business accounting and properly combine the interests of the state with its own. In short, the state must use the law of value as a means of fulfilling its economic plan.

Some comrades used to set the law of planned, proportionate development of the national economy against the law of value, maintaining that the one does not operate where the other does. The fact is, the two laws operate simultaneously, but in a given case the one may play the leading role and the other an auxiliary one. On the whole, the law of planned, proportionate development of the national economy plays the leading role in a socialist economy while the law of value plays an auxiliary role. However, the socialist state cannot possibly include the production and exchange of all products in its planning. By its planning, it can only exercise more control over the state economy and less on the collec-

tive economy, more over the major products and less over the minor ones. While it has to utilize the role of the law of value in handling the products included in its plan, it must do so to a fuller extent in dealing with those not included in the plan. Our business administrators must be good at utilizing the law of value in the interests of socialist economic construction. Our knowledge of the law of value has been inadequate, resulting in its contravention through wide gaps between the prices of many products and their values. We should remedy these through a series of readjustments.

In the past twenty years or so, we have not been good at maintaining a proportionate development of the different departments of the national economy by a rational readjustment of prices. Many important farm products were priced too low, affecting extended reproduction in agriculture. We did not make full use of the role of the law of value to resolve the contradiction between supply and demand through timely price readjustments. Instead, we resorted to administrative means and overused such methods in state monopoly purchase, purchase on a requisition basis or by assigned quotas, and rationing of consumer goods. Such measures may be used for a brief period under unusual circumstances created by war or serious natural calamities. They may also be necessary for regulating within a certain period the supply and demand on important products essential for the national economy and the people's livelihood. But they must not be used indefinitely or applied extensively, and it would be a bigger mistake to claim, as some comrades have, that they were "indispensable for a planned socialist economy" and a concrete manifestation of the "superiority of the socialist system". While reforming the structure of economic management and extending the autonomy of grassroots enterprises, including communes, brigades and teams, the state must strictly observe the law of value and make intelligent use of it so as to ensure a planned, proportionate development of the national economy.

4. *Economic laws peculiar to the period of socialism.* One of these laws is "to each according to his work", or the principle of distribution according to work. It reflects in people's minds an economic process independent of human volition. China used to be a country dominated by small-scale production, where equalitarianism had deep socio-historical roots. Therefore people are apt to negate the principle of "to each according to his work" from the standpoint of equalitarianism. Over the past three decades the "Left" tendency to negate this principle surfaced time and again, chilling the enthusiasm of the labouring people and doing harm to socialist economic construction. We must truly respect the law of "to each according to his work", opposing both equalitarianism and the acquisition of privileges. We should gradually perfect the system of distribution according to work in the struggle against these two tendencies.

In a country where a small-scale peasant economy predominates, individual ownership can be changed to ownership by the whole people only through the medium of collective ownership. This is another objective law governing socialist economic development. In particular, in a country like China where the level of productive forces in agriculture is extremely low, not only will collective ownership exist for a fairly long time, but the economic sector under such ownership will undergo an evolution from small collectives with a lower standard of public ownership to large collectives with a higher standard of public ownership and then to ownership by the whole people. Ignorant of this economic law for a long time, we made several attempts at a hasty transition, causing considerable losses to agricultural production. A transition from collective ownership to ownership by the whole people depends on the growth of productive forces and of people's socialist consciousness, and cannot be advanced at will. Handicraft industry exists in our cities and manual labour is widely employed in certain trades, so there are more economic units to go under collective

ownership. Many comrades think that collective ownership may exist only in the countryside and not in cities and still less should it be allowed to appear anew. This line of thinking contradicts the laws governing socialist economic development in China.

As mentioned earlier, the basic economic law of socialism defined by Stalin is actually an economic law of communism and not one peculiar to the period of socialism. The basic economic law characteristic of the period of socialism, as the term indicates, must be a law of motion that governs the transition from capitalism to communism through various stages of socialism. In our study of this law, we have to examine the basic contradictions in the period of socialism, particularly the specific forms of the contradiction between the relations of production and productive forces. We have to see how the forms of the socialist relations of production and their various links are in harmony as well as in contradiction with the productive forces and how some of these forms and links become disharmonious with the productive forces in the course of the latter's growth. Then we will see the need to consolidate these forms and links at certain times and gradually change them at others to facilitate a continual growth of productive forces. This is what we should do if we are to study the basic economic law in the period of socialism. Such a law gives concrete expression, in the period of socialism, to the law that the relations of production must conform with the level of the growth of productive forces, and covers all the abovementioned laws peculiar to the period of socialism. Economic laws are all interrelated and combine to form an integral whole. Thus it is incorrect to separate one law from the others and study it in isolation. Instead, each law should be studied as part of an integral whole.

The basic economic law of socialism requires, among other things, a high-speed development of productive forces or a high-standard modernization of the national economy. The

transition from the co-existence of the two systems of socialist public ownership to a single system of ownership by the whole people must be provided with a material basis, i.e., the modernization of the national economy. The transition from socialism to communism requires a level of productive forces much higher than what is already attained in developed capitalist countries. Socialism, Lenin said, can and will triumph over capitalism because it can create a new rate of labour productivity much higher than that created under capitalism. If we fail to develop the productive forces or raise our labour productivity much higher than that under capitalism, the final victory of communism will be out of the question.

At the higher stage of communism, the laws peculiar to the period of socialism will cease to function. Having accomplished their historical tasks, they will disappear from the stage of history. But then the law of securing the maximum satisfaction of the ever-growing requirements in the life of the whole people through expanded production on the basis of higher scientific and technological standards will operate on a full scale. The needs of the people will grow with expanded production, never to be fully satisfied. Thus the contradiction between social production and social demand will exist forever and become the motive force of the progress of communist society. At the same time, the communist economy will show a much higher degree of planning than we have today. Under a single system of communist ownership by the whole people, it will be relatively easy to use the new computation techniques to control production in the various departments of the national economy and adjust in good time the contradiction between the production of all kinds of social products and the demand for them. The law of planned, proportionate development of the national economy will operate fully on a higher basis than now. Engels said, "It is only from this point that man will himself make his own history fully consciously. It is only from this

point that the social causes he sets in motion will preponderantly and ever increasingly have the effects he wills. It is humanity's leap from the realm of necessity into the realm of freedom."[1] Socialism marks the beginning of such a leap; it will be completed under communism.

3. ECONOMIC LAWS AND MAN'S INITIATIVE

As mentioned before, objective laws of economic development exist in a socialist society just as they do in other societies. All our economic activities are governed by objective economic laws. Unlike the objective laws of economic development in previous societies, which effected all kinds of changes spontaneously, those in a socialist society are brought into play through the conscious, planned and clearly-aimed activities of the people under the leadership of the Communist Party. If we acquire an accurate understanding of the objective laws of economic development and apply them intelligently, our initiative will play a tremendous role in promoting socio-economic developments. Conversely, if our activities contravene objective laws, we will be punished and will be forced to adapt our activities to the requirements of these laws.

The socialist transformation of agriculture, handicrafts and capitalist industry and commerce after the founding of New China was carried out in a planned way under the leadership of the Communist Party and the People's Government. We achieved tremendous successes by correctly applying the objective economic laws of socialism and those of capitalism. In transforming capitalist industry and commerce, we relied on the might of the socialist state sector of the economy, controlled the circulation of money, seized

[1] Frederick Engels, *Anti-Dühring*, FLP, Beijing, 1976, p. 367.

leadership over the market through a struggle to stabilize prices and, having taken the supply of raw and semi-finished materials and the sales of commodities into our hands, directed the capitalist enterprises into the orbit of state capitalism by making them work on government orders. In the relations between the state and private sectors, while giving full play to the leading role of the state sector, we correctly applied the economic laws of capitalism and guaranteed the profits due the capitalists. The state sector was highly concentrated whereas the private sector was scattered. The workers and staff in state enterprises displayed much higher enthusiasm than those in private ones. Giving full play to the socialist state sector, we were able to triumph over capitalism through competition. Our work proceeded smoothly on this front.

In transforming agriculture and the handicrafts, we made full use of the role of the law of value and the market, placing the individual peasants and handicraftsmen under the leadership of the state sector of the economy and gearing most of their production to the state plan. As for the small-scale peasant economy, we first mobilized the peasants for land reform, thoroughly destroying the rule of the landlords and rich peasants, abolishing feudal land ownership, and distributing land among the peasants. Through the establishment of agricultural co-operatives, we helped peasants overcome the difficulties resulting from the scattered nature of the small-scale peasant economy. With peasants accustomed to being small producers, we persevered in the principle of voluntary participation and mutual benefit in the course of setting up co-operatives, proceeding step by step from mutual aid teams to elementary co-operatives and then to advanced co-operatives. Thus our work on this front went on fairly smoothly. After the co-operatives were established universally, however, many of our comrades overlooked the law that the relations of production must conform with the growth of productive forces and made the mistake of making rash advances in setting up rural people's communes in 1958. Only after

readjustments were the relations of production basically brought into conformity with the productive forces and agricultural production rehabilitated and expanded. The advances and reverses were both effected through the policies and decrees of the Party and the government, but it was the objective laws of economic development that played a decisive role behind these policies and decrees.

In 1953, China launched her First Five-Year Plan of socialist economic construction. The ratio between accumulation and consumption and the proportions between the various departments of the national economy worked out at the time were relatively correct. We undertook 156 key projects and laid an initial basis for industrialization. During the period of the Ist FYP, as we basically observed the law of planned, proportionate development of the national economy, our work proceeded fairly smoothly. From 1958 to 1960, however, we set excessive targets for the growth of industrial and agricultural production. In particular, it was unrealistic to demand that steel output be doubled in a year and other branches of heavy industry be developed at a corresponding rate. Consequently, agriculture and light industry were relegated to a secondary position. Between 1959 and 1961, farm output dropped year after year, disproportions surfaced in the national economy and the people had to cope with hard times. The Central Committee of the Party advanced a policy of "readjustment, consolidation, filling-out and raising the standards". Drastic steps were taken to curtail capital construction and heavy industrial production. In the next three years, the proportions between agriculture, light industry and heavy industry were readjusted, and so was the ratio between accumulation and consumption, leading to an all-round turn for the better in the national economy. Experience shows that only when we respect objective economic laws can we achieve positive results through initiative.

In a socialist country, the distribution and exchange of social products is also conducted largely through national economic

planning. The state sets the ratio between the accumulation fund and the consumption fund, works out the wage scales for the workers and staff in state offices and enterprises, formulates the policies of distribution within the collective sector of the economy and among the collective peasants, and sees to it that the life of workers and peasants improves step by step on the basis of rising production. In the final analysis, both distribution and the people's life depend on production. On the other hand, a distribution policy also affects production. The first eight years after the founding of New China saw a steady improvement in the life of workers and peasants amidst the rapid growth of industrial and agricultural production. Beginning in 1958, violation of objective laws of economic development in some years, and the interference and sabotage by Lin Biao and the Gang of Four in the Cultural Revolution accounted for the slumps in industrial and agricultural production and the negligible rise in living standards for workers and peasants. In distribution, we contradicted the principle of "to each according to his work", used too much rural manpower without compensation, and purchased too much farm produce from the peasants. All this caused a drop in the labour enthusiasm of the workers and peasants and put brakes on industrial and agricultural development. Facts show that we do not know enough about the law of "developing production and satisfying the people's needs", which is essentially the "basic economic law of socialism" defined by Stalin, nor about the law of "to each according to his work".

In the past twenty years or so, we have acted with too little knowledge about the law of value. We laid stress on the role of the law of planned, proportionate development of the national economy but attached little importance to the role of the law of value. We failed to see that in a socialist society, particularly in one like our own where the level of productive forces remains low, we have to seek the help of the law of value in our national economic planning. But we ex-

ercised a rigid control over the national economy and failed to make good use of the law of value. Thus the prices of many products vary far from their values. Important products badly needed by the state are tightly controlled and priced low, while secondary products beyond state control are priced high and yield much profit. This affects a proportionate development of the various departments of the national economy. The remedy is to be found in a readjustment of prices through a full utilization of the role of the law of value, which will facilitate a balanced economic development, and not in an extension of compulsory state purchases and of rationing, which means a further restriction of the role of the law of value.

The above shows that our knowledge of the economic laws of socialism is far from adequate and we often act against objective laws, which make it impossible to bring the superiority of the socialist system into full play. The economic laws of socialism operate in a way different from those of capitalism. Instead of functioning spontaneously beyond man's will, they operate through man's conscious activity. Precisely because of this, it is all the more necessary for us to study the objective laws governing socialist economic development and learn to act in accordance with them.

Here it may be added that, when we speak of the spontaneous manner in which economic activities in capitalist countries are regulated by objective economic laws, we are contrasting it to its role in socialist countries. In the era of non-monopoly capitalism in the 18th and 19th centuries, bourgeois economists advocated laissez-faire and opposed intervention by the state and all economic activities were regulated spontaneously by the economic laws of capitalism. In the era of monopoly capitalism, the basic contradiction of capitalism sharpened and led to the unprecedented economic crisis in the 1930s which proclaimed the bankruptcy of laissez-faire. The monopoly bourgeoisie began to advocate state intervention in economic activities. To compete with one another and avert or cushion economic crises, the monopoly capitalists not only

made use of market forecasts on a wide scale but also appealed to the state for "regulation" of the economy. Since the Second World War, the capitalist countries have used taxation as a means of adjusting commodity prices. In particular, they have been guiding the orientation of investment by monopoly capitalist groups through the credit policies of the banks. Thus state intervention is playing an increasingly important role in these countries. Of course, the capitalist countries can never free themselves from the basic contradiction of capitalism, eliminate the polarization between the bourgeoisie and the proletariat, or get rid of the cyclical economic crises, because the means of production are privately owned and all the economic activities of monopoly capital are designed to grab the maximum profit.

In China, much importance was attached to the study of the economic laws of socialism following the publication of Stalin's *Economic Problems of Socialism in the U.S.S.R.* But we were more or less influenced by certain metaphysical views and oversimplified the socialist relations of production, believing that all economic activities in the country could be controlled through state planning, and that the role of the law of value was confined to business accounting and the marketing of consumer goods, playing no regulatory role in production. During the Cultural Revolution, Lin Biao and the Gang of Four went all out to push "politics" which disrupted the economy and a "revolution" which rejected production. They negated the principle of "to each according to his work" and the law of value. In those days it was taboo to discuss the economic laws of socialism, and research in this field dropped from its original level. In the meantime, our economic management also deviated from the economic laws of socialism by varying degrees. At one time, it was believed that anything could be accomplished at the will of those in authority.

Our task is to acquire an accurate knowledge of the objective laws governing socialist economic development towards

accelerating the socialist modernization of our national economy and consolidating and developing our socialist relations of production. This is a question to which our economic theoreticians and administrators should devote much attention. To solve this question, we must study Marxism-Leninism assiduously, analyse the positive and negative experience in socialist revolution and construction in China and other socialist countries, integrate theory with practice and particularly with the new tasks in China's new historical period, do much investigation and research and find the correct road to China's socialist modernization. This will enable us to find our bearings in the socialist revolution and construction in the days to come.

ABOUT THE AUTHOR



Xue Muqiao, a well-known Chinese economist, was born in 1904. Poverty forced him to leave school in his early years, but he pursued his studies on his own. As a leader of the workers' movement in Hangzhou, capital of Zhejiang Province, he was arrested by the Kuomintang government in 1927. While in jail, he devoted himself to a study of political economy and other social science subjects. Four years later, in 1931, he took part in a survey of the rural economy sponsored by the Institute of Social Sciences under Academia Sinica while continuing his study of Marxism. Between 1933 and 1934 he taught rural economy and political economy at the Guangxi Provincial Normal School. In 1934 he joined Chen Hansheng, Qian Junrui, Jiang Junchen and others in founding the Society for the Study of China's Rural Economy and became editor of the monthly journal *The Chinese Countryside*. From 1938 to 1942 Xue Muqiao headed the training department of the Central China Anti-Japanese Military and Political Academy and taught political economy at the academy as well as the Central China Higher Party School. Between 1943 and 1947 he served as Secretary-General of the Provincial Government in the Shandong Anti-Japanese Base Area and was in charge of economic work there.

After the founding of the People's Republic of China, Xue Muqiao served as Secretary-General of the Committee for Financial and Economic Affairs of the Government Council, Vice-Chairman of the State Planning Commission, Director of the State Statistical Bureau, and Director of the National Price Commission. He was also elected Academician, the Chinese Academy of Sciences. Currently he is Adviser to the State Planning Commission and Director of the Institute of Economics under the Commission.

His works include *A General Outline of China's Rural Economy* (available in Japanese), *A.B.C.'s of Rural Economics, Political Economy (a Popular Course), The Socialist Transformation of the National Economy in China* (available in English, Japanese, French, Spanish and German), *Theoretical Questions of the Socialist Economy,* and the present book.

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